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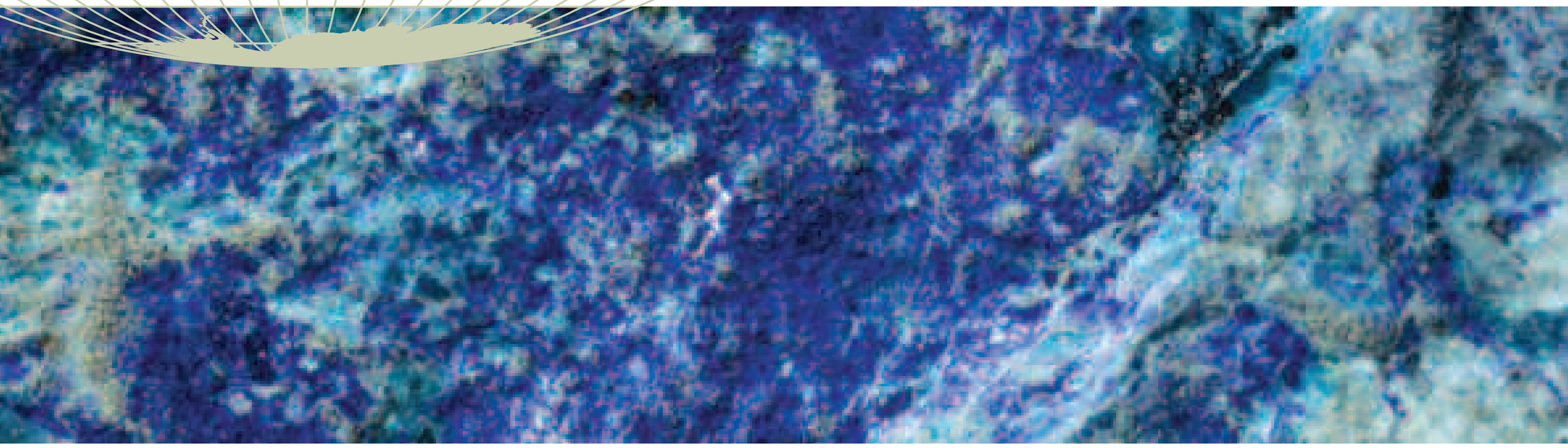
Tanzania

Executive summary

The Challenge of Mineral Wealth: using resource endowments to foster sustainable development

October 2006

Spotlight series 09



Tanzania

Rapid expansion of mining in Tanzania has brought economic and development benefits but also some social tensions including, for example, conflicts between small-scale and major commercial miners. A deepening of governance reforms at the regional level could help overcome such problems as well as further enhancing mining's economic impacts

Two sorts of private-sector mining activity have boomed in Tanzania in recent decades. First, the ending of Tanzania's state monopoly over mining at the end of the 1980s presaged a rapid growth in artisanal and small-scale mining. By 1995, an estimated 550,000 Tanzanians were earning some of their income from such mining (albeit this boom proved relatively short lived: the small mines often soon dug as deep as they could using their basic technology). Second, the opening of the economy to foreign firms and new and more attractive mining legislation has more recently led to a major expansion of investment in large-scale mining. This has attracted an estimated $1.3 billion in investment since 2000: easily the largest source of FDI to the country.

On both counts, the economic impacts have been broadly positive. The mining sector as a whole now accounts for over 40% of the country's exports as well as around 3% of its GDP. The rapid growth in artisanal mining in the late 1980s meanwhile appears to have had a 'startling' impact in relieving rural poverty, in the words of a USAID study in 2001. At the same time, however, both booms have led to some tensions. For example, there have been conflicts directly between large-scale and artisanal miners over land use (with the latter sometimes operating in areas legally claimed by the former, and alleged violence sometimes erupting as a result). Recently, there has also been a national political debate over the taxes and royalties levied on the commercial mining firms, with calls for the companies to make bigger payments.

This Spotlight provides an overview of the findings of the Tanzania case study – one of four country case studies – of ICMM's[1] Challenge of Mineral Wealth initiative. As well as examining commercial mining's impacts in Tanzania at the national level, the case also analyzed the impacts of a particular large operation – Placer Dome's[2] North Mara mine in the Tarime district in North Western Tanzania. While the case study indicated that mining's impacts have been positive on balance, it also sought to understand the deeper drivers of both the benefits, and tensions which mining has brought[3]. A key issue in this respect, it was found, was the quality of governance. Improvements in economic policies and governance have helped create a sound national policy environment for mining; but remaining governance weaknesses, particularly at the regional and local level, underlie at least some of the tensions – and may also have prevented the full potential benefits of mining from being realized.

In this way, the case study contributes to the overall aim of ICMM's initiative: to identify ways to improve mining's socio-economic impacts. To strengthen its rigor and credibility, all research for the initiative, including the Tanzania case study, was undertaken by independent consultants and overseen by an independent advisory panel. The main findings from the initiative were also reviewed by different stakeholder groups, including civil society organizations, academics, and international donors. Please see Spotlight series 01 – 04 for a overview of the initiative. The rest of this Spotlight sets out the main points of the Tanzania case study.

Mining for data

On a national level in Tanzania, there is little doubt that mining has contributed to an economic turnaround in recent years. As mentioned the commercial mining industry has recently revived (with most of the new investment going into five major mines, including North Mara). Supported by Tanzania's long-delayed macroeconomic and structural reforms in the mid-1990s, and radical new mining legislation in 1998, gold production has soared. The mining sector now accounts not just for a large proportion of the country's exports, but also for around 75% of its foreign direct investment, and a rising, albeit smaller, share of government tax revenues (currently 3.6%).

Significantly, the performance of Tanzania's economy has also improved during this period of mining resurgence. During 1996-2003, average annual GDP growth was 4.8%: generally higher (and certainly much more stable) than anything seen in the previous decades since the country's independence in the early 1960s.

How exactly has mining contributed to this overall economic revival? The sector is estimated to have contributed about 0.3% of this average annual GDP growth of 4.8% during the period 1996-2003 (or some 6% of the total). On the one hand, because commercial mining is such a capital intensive activity, it has contributed less to Tanzania's employment and value-added (and so to GDP) than might be expected given the scale of the recent investments.

On the other hand, mining has been able to deliver its contribution at a critical, early stage in the process of national reform, when other private sector activity has proved more difficult to stimulate. Tanzania has had a long history of poor macroeconomic management; and clearly a fragile country run for years on strict socialist lines does not easily make the transition to a market-based economy. Commercial mining, however, has shown itself to be unusual in this respect, capable of operating successfully in an environment that is still only partly reformed and in which the support structures usually necessary for private sector growth – such as physical infrastructure and an overall business culture – are still weak. The case study did not conclude that mining per se *caused* Tanzania's improved growth performance. But it did find that mining was one of the few and main sources of early investment in response to a broader package of improved policy and other developments that together explained the positive outcomes.

[1] The project was also conducted in collaboration with UNCTAD and the World Bank.
[2] Placer Dome was acquired by another Canadian company, Barrick Gold, in 2006, after the case research was completed.
[3] The full case study (as well as the other three country case studies) will be published by UNCTAD following Government review.

In terms of mining's social impacts, the case study also examined the sector's contribution to Tanzania's overall progress towards the UN Millennium Development Goals (MDGs)[4]. On the one hand, household survey data in Tanzania (based on the latest available figures from 2001) suggests that the country's recent economic revival has not as yet led to significant falls in its – very high – rates of poverty since the early 1990s. However, the case study did find some basis for cautious optimism about mining's social contribution.

In particular, the extra growth that has been associated with the boom – even if small on the national canvas – is large for those communities actually living in mining areas. In terms of the main MDG, the eradication of extreme poverty, for example, the economic activity generated by mining has had positive local effects. As well as employing and providing work through contractors to almost 8,000 workers in total (see Figure 1), commercial mining firms in Tanzania have also helped create good quality jobs through their procurement activities (some 45,000 additional jobs, according to an estimate in the case study). Much of this work has gone to people in the mining areas themselves.

The major mining firms have also often committed to sustainable development agendas that are advanced compared with national industry norms, adopting relatively progressive approaches to issues such as gender empowerment, environmental management and community development. At the North Mara Mine, for example, the case study found that Placer Dome had adopted active measures to enhance levels of local employment and business development. It had also funded various health, education and infrastructure projects, including clinics and schools (and in this way had contributed to other MDGs, such as those relating to education and health).

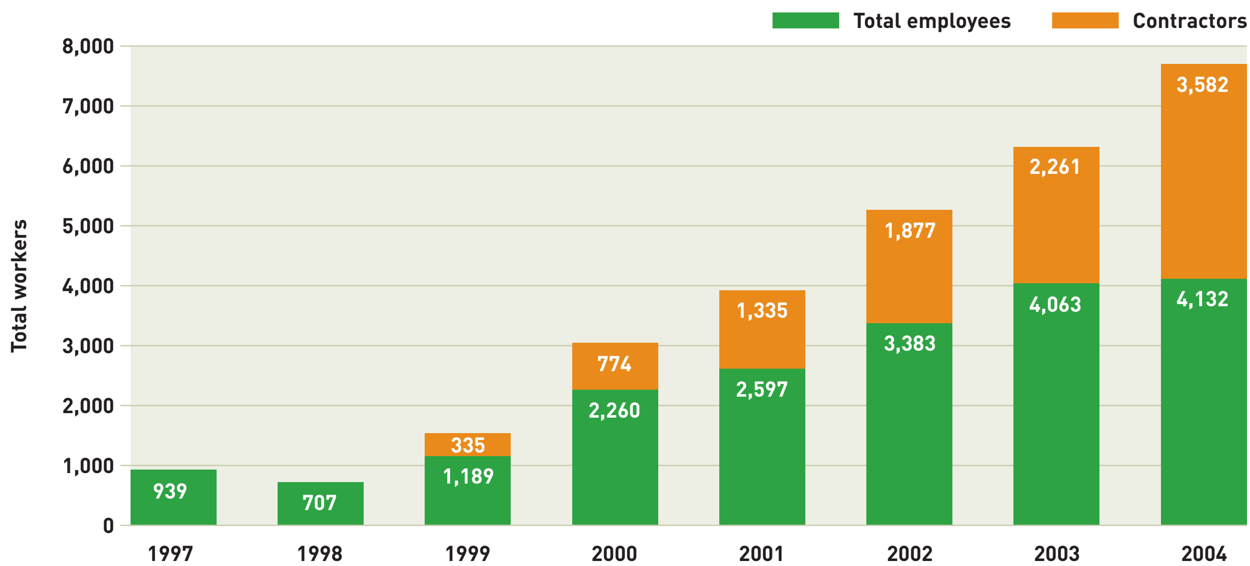
At the same time, however, it is clear that mining's local impacts are not without problems – nor as positive as they might be. As noted previously, the activity of artisanal and small-scale mining (ASM) workers has sometimes been restricted by the granting of leases to large operations (albeit many ASM jobs might not have survived longer term in Tanzania in any case given the inherent limitations of this type of mining). In terms of relationships between the mines and local communities, these clearly need to be stronger if all the potential positive impacts of mining are to be realized. Yet the companies generally recognize that this goal has not been fully achieved – in spite of their efforts, for example, on community development. Related to this, the economic trickle-down effects from mining in terms of stimulating other productive activities are recognized to be still limited and certainly much less than those seen in more mature mining economies such as South Africa.

Lessons of gold

So there is potential to improve further the impacts of mining in Tanzania. But what are the underlying explanations for the success that has been achieved so far? And what reforms are needed to create more positive outcomes?

The study suggests that Tanzania's overall success in reviving its commercial mining sector – and the national-level economic benefits this has brought – can be attributed to three broad factors. The first is Tanzania's reform of its mineral legislation, which helped attract a new wave of large commercial investors from 1999 onwards. While critics argue that the 1998 mineral legislation has been slanted too much in favor of the mining companies (hence the recent calls for them to pay more tax and royalties), the firms point out that the country's tax regime still represents a significant deterrent to investment compared with countries that compete for the same investments. This is borne out by

Figure 1: **Employment in the large scale mining industry in Tanzania, 1997–2004**



[4] See www.undp.org/mdg/ for explanations of the Millennium Development Goals.

This document is one of a series of publications produced by ICMM under its Resource Endowment initiative, which aims to better understand how large scale mining activity in low and middle income countries impacts the socio-economic development of host countries. This action-research project is being done together with UNCTAD and the World Bank Group, with broad stakeholder engagement. For the latest information on the initiative, including details of publications, activities and partners visit www.icmm.com

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independent comparative reviews of mining regimes across the world[5].

The second factor is Tanzania's recent policies of macroeconomic stabilization and structural adjustment. The country has achieved lower and more stable inflation and also a fiscal balance that is more easily financed without inflation than in the past. Even more important, for a decade now, Tanzania has sustained a reasonably reliable commercial regime that has reduced the earlier substantial risks to investors of undertaking payments and receipts in foreign currency – a key factor in the viability of commercial mining. Serious real exchange rate misalignments have also been avoided, in contrast with previous decades when such misalignments were chronic.

The third component is what appears to have been an improvement in key aspects of Tanzania's governance since 1996. A critical element here has been the establishment of a stronger, and more effective, central executive power – arguably necessary to achieve the improvements in national economic policy. The reforms of the past few years also now ensure a reasonable degree of delivery of publicly-stated objectives – including poverty-reduction programs – through the budgetary process. Similarly, the government is also now reasonably well equipped to make good use of those revenues that it raises from mining (and future participation in the Extractive Industries Transparency Initiative would be a confirmation of the standards of transparency already achieved in this regard).

At the same time, however, Tanzania's governance does remain weak in many of the areas measured by the World Bank's governance indicators (even though the country's scores against these indicators have improved over the last decade). Public management systems and their implementation remain problematic in some respects and significant financial leakages are still occurring. The control of corruption, although much improved, remains a part of this. This point does cast doubt on the argument sometimes made in policy debates that a comprehensive improvement in governance should be a pre-condition for mining investments[6]. In Tanzania, mining has contributed to a macro-economic revival in spite of some major ongoing flaws in a broadly improving system of governance.

However, the study also argues that the incomplete nature of governance reforms holds the key to enhancing further the positive impacts of mining, as well as tackling some of the local tensions that have arisen. In particular, the case study points to the need for an extension of the governance improvements already achieved at the national level to local government. Conflicts between artisanal and large-scale mining would be easier to resolve, for example, if local authorities had more substantial administrative and financial capacities – and were also better placed to adjudicate fairly between conflicting claims (and in a way which also upheld national legal agreements).

Also, in terms maximizing the local impact of the significant corporate social investments of the five major new investors, a key problem is how to embed these contributions into mainstream public provision. Most of the companies have realized that they need to combine forces with government and social service providers and are seeking guidance over how such arrangements might be structured.

The chances of achieving such goals would be raised if local authorities had stronger management and other capabilities to work as equals alongside the mining companies. The alternative is for the companies to rely too much on the central government which will likely have less detailed knowledge of local problems and priorities. While the present system of local authority financing is improving, it does not yet provide a satisfactory basis for bottom-up planning and financing of economic and social development. Nor does it provide sufficiently equipped interlocutors for the mining companies in local and regional administrations. Skilled public-sector intervention is important to help maximize the local benefits from mining (including stimulating a local economy which is not overly dependent on the industry).

None of this is to detract from the critical role of the national government – for example, in ensuring mineral taxes are spent effectively on a national basis, and in fostering skills and broader employment generation from mining. Nonetheless strengthening local state capacity is an important factor too. Relevant to this is that the Tanzanian government has so far explicitly refrained from providing any preferential treatment to mining areas in redistributing the large mining revenues it receives. So local areas that generate these revenues have less scope to address the many and varied problems and opportunities resulting from the presence of large scale mining. A change in this policy could provide the funds for improving local governance (although other countries, such as Chile, have stimulated development in mining areas without such as a fiscal arrangement).

Certainly, the mining companies in Tanzania can only do so much on their own to ensure their potential economic contributions are maximized. Adequately resourced and effective local and regional (as well as national) authorities are an important prerequisite in this respect. Interestingly, a number of the other country case studies examined as part of the Challenge of Mineral Wealth initiative came to a similar conclusion. Please see Spotlight series 03 'Ways Forward' for the overall recommendations flowing from this finding.

[5] In particular the reviews regularly conducted by the Fraser Institute in Canada. See, for example, The Fraser Institute (2005), *Annual Survey of Mining Companies, 2004/05*, Vancouver, Canada.
[6] See, for example, the *Extractive Industries Review* commissioned by the World Bank.

ICMM would like to thank all the individuals, governments and organizations that contributed to the study, full details of which are included in the main report. In particular, ICMM appreciates the cooperation and support of: the Government of Tanzania, including representatives of Tarime District Government, Geita District Executive Director; the Tanzania Chamber of Mines and Energy (Emmanuel Jengo), Barrick Gold, who acquired Placer Dome in 2005 (Peter Sinclair); Placer Dome (Jim Cooney, Jonas Kipokola, Ila Temu, Greg McNee and Reward Tenga); North Mara Mine; and local interviewees for the Social Impact Assessment (SIA) including 753 households in the project area, 304 individuals who participated in 20 focus groups, focus group participants in 5 other communities in Geita District and 13 businesses in Nyangoto village.