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Mining in Tanzania – What Future can we Expect?

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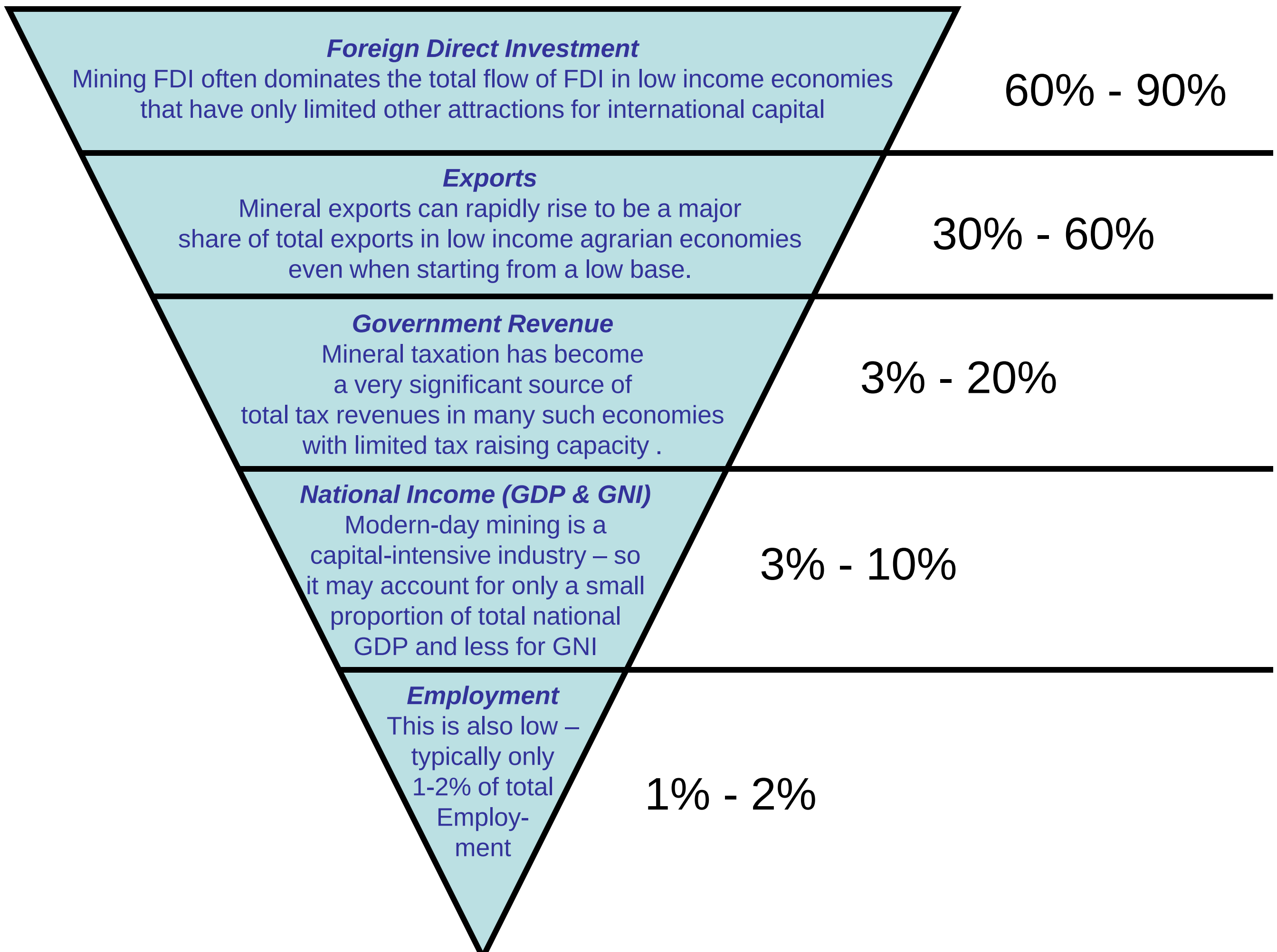
What we will cover

- The components of Mining’s Macroeconomic contributions in general
- The size of these contributions in Tanzania - 1998-2008
- The Contributions of 4 main gold mines to 2034
- Selected Implications for Policy and the Bomani Commission recommendations

How big is mining's macroeconomic contribution? – A stylised view



Some implications

- Many of the positive macro contributions of mining will arise naturally provided that the regulatory and taxation conditions are reasonably attractive
- But mining’s FULL POTENTIAL contribution to the macro-economy requires complementary government policies that can help to build on the relative modest direct impact of mining (e.g. on employment levels)
- Examples might include designating mining regions as “poles of growth” to attract new manufacturing and service activities that complement the stimulus provided by mines themselves and active programs of encouragement to sustainable artisanal mining

Failure in this respect can result in

- Mining companies being criticised as the villains for the things that they DO NOT and cannot be expected to deliver
- Inadequate recognition of the positive macro benefits that the mining companies can and DO deliver
- Overly narrow policies that try to resolve all problems via mining sector policies alone without due regard for the broader supportive policies and the need for KEY PARTNERSHIPS (Bomani recognises this problem very explicitly)

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Let's review the five key areas of:

- Foreign Direct Investment
- Exports
- GDP
- GDP Growth Rates per capita
- Government Revenues

I will look also at Employment later

See also *Bomani Committee Report,* Vol 2 Ch 2

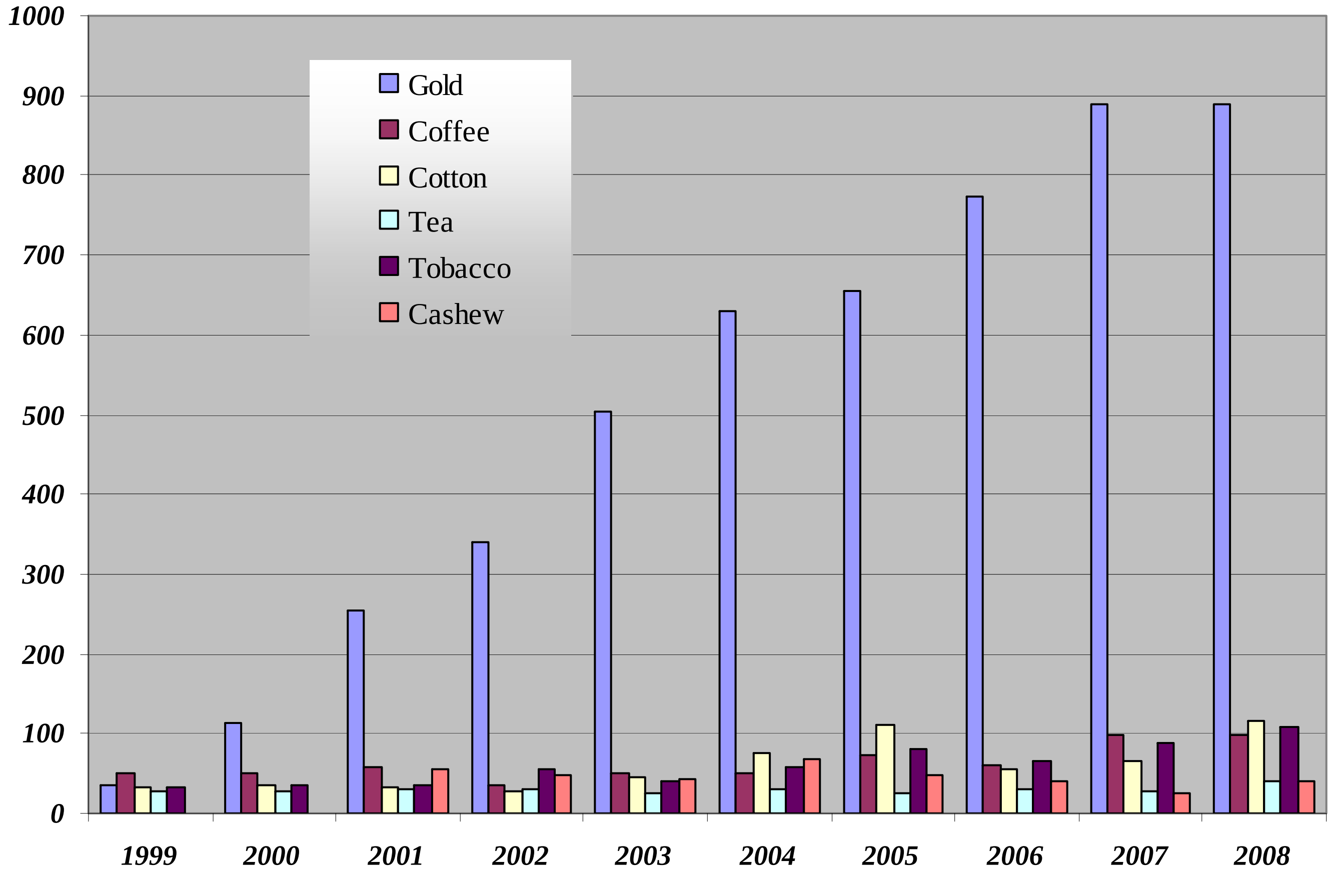
Foreign direct investment

Range	Inflows
Over $3.0 bn	Nigeria, Egypt and South Africa
$2.0 bn to $2.9 bn	Morocco, Libyan Arab Jamahiriya and Sudan
$1.0 bn to $1.9 bn	Equatorial Guinea, Algeria and Tunisia
$0.5 bn to $0.9 bn	Madagascar, Zambia, Ghana, Kenya, Democratic Republic of Congo, Namibia, United Republic of Tanzania, Chad and Burkina Faso
$0.2 bn to $0.4 bn	Botswana, Mozambique, Côte d' Ivoire, Uganda, Mali, Congo, Mauritius, Cameroon, Gabon, Ethiopia and Seychelles
Less than $0.2 bn	Djibouti, Cape Verde, Mauritania, Somalia, Guinea, Lesotho, Sierra Leone, Senegal, Togo, Zimbabwe, Rwanda, Gambia, Malawi, Benin, Liberia, Swaziland, São Tomé and Principe, Central African Republic, Niger, Guinea-Bissau, Comoros, Burundi, Eritrea and Angola

- UNCTAD *World Investment Report 2008* data tells us that:
- Tanzania is now the leading non-oil destination for FDI in Africa after South Africa
- FDI flows of $10 million or less per annum in the 1990s have grown FIFTY-FOLD to over $500 million per annum now!
- In the 3 years to 2007 alone the total FDI was $1.7 billion
- **More than $2 billion of the $3 billion total FDI flows since 2000 are in the Mining Sector**

Exports: Gold has overtaken Traditional Exports in relative importance

($ million)



Note:

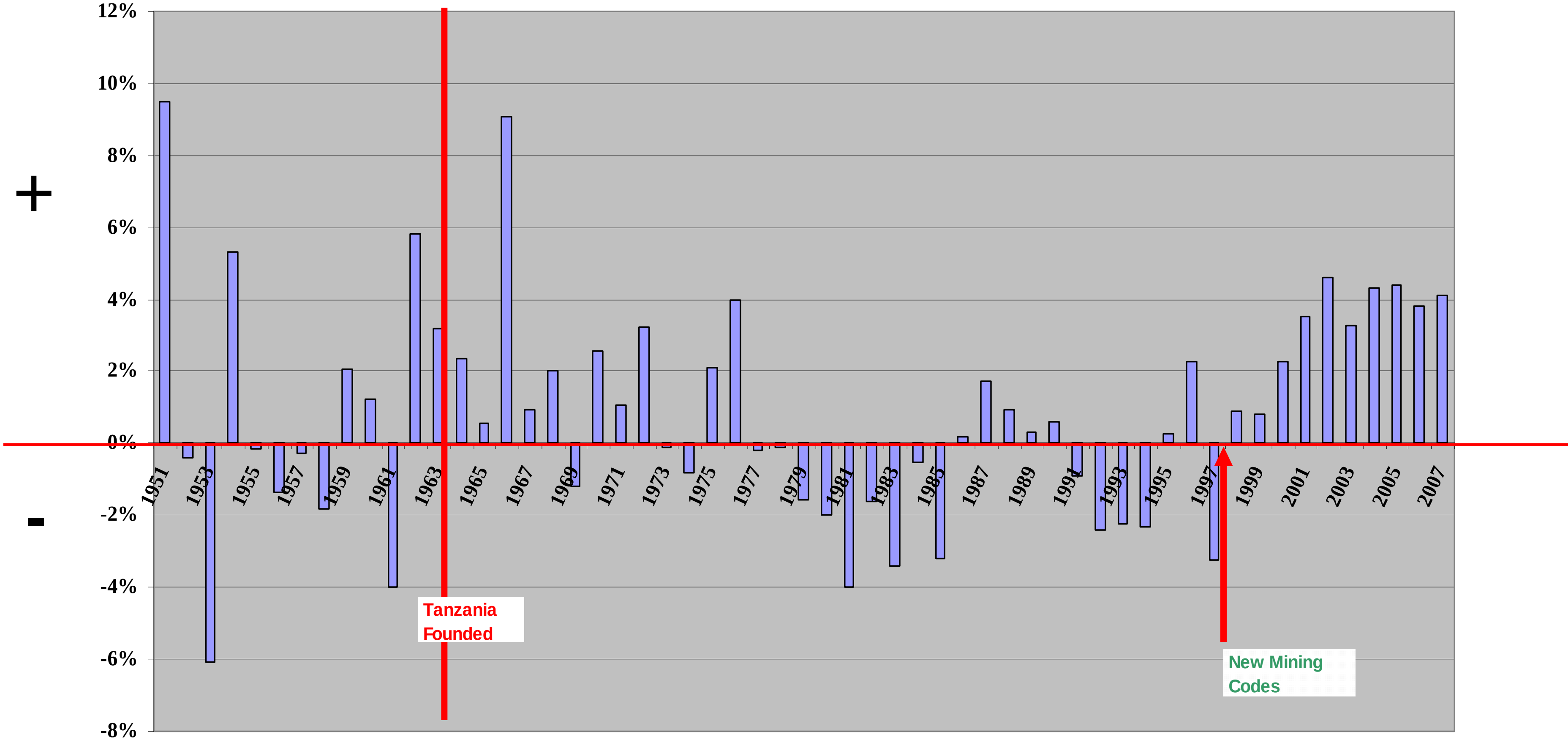
The radical differences between 1999 and 2008

GDP

Sector Shares since 2000

	2000	2001	2002	2003	2004	2005	2006	2007
MINING	**1.5**	**1.8**	**2.1**	**2.4**	**2.6**	**2.9**	**3.2**	**3.5**
Total GDP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Monetary GDP	83.9	83.9	84.2	84.4	83.6	84.1	84.5	84.8
All Agriculture (Monetary)	18.2	17.7	17.5	17.4	17.2	16.2	15.3	15.1
Crop Husbandry	13.0	12.7	12.7	12.6	12.5	11.5	10.6	10.7
Other Agriculture	5.2	5.1	4.8	4.8	4.7	4.7	4.6	4.3
All Industry, Mining and Construction	16.9	17.0	18.7	20.1	19.9	19.7	19.6	19.9
Manufacturing	8.8	8.4	8.3	8.3	8.1	7.9	7.8	7.8
Other Industry and Construction	6.7	6.9	8.3	9.5	9.3	8.9	8.6	8.6
Services	41.6	41.7	40.5	39.3	38.8	39.1	40.0	40.2

GDP: per capita growth (1950-2007)



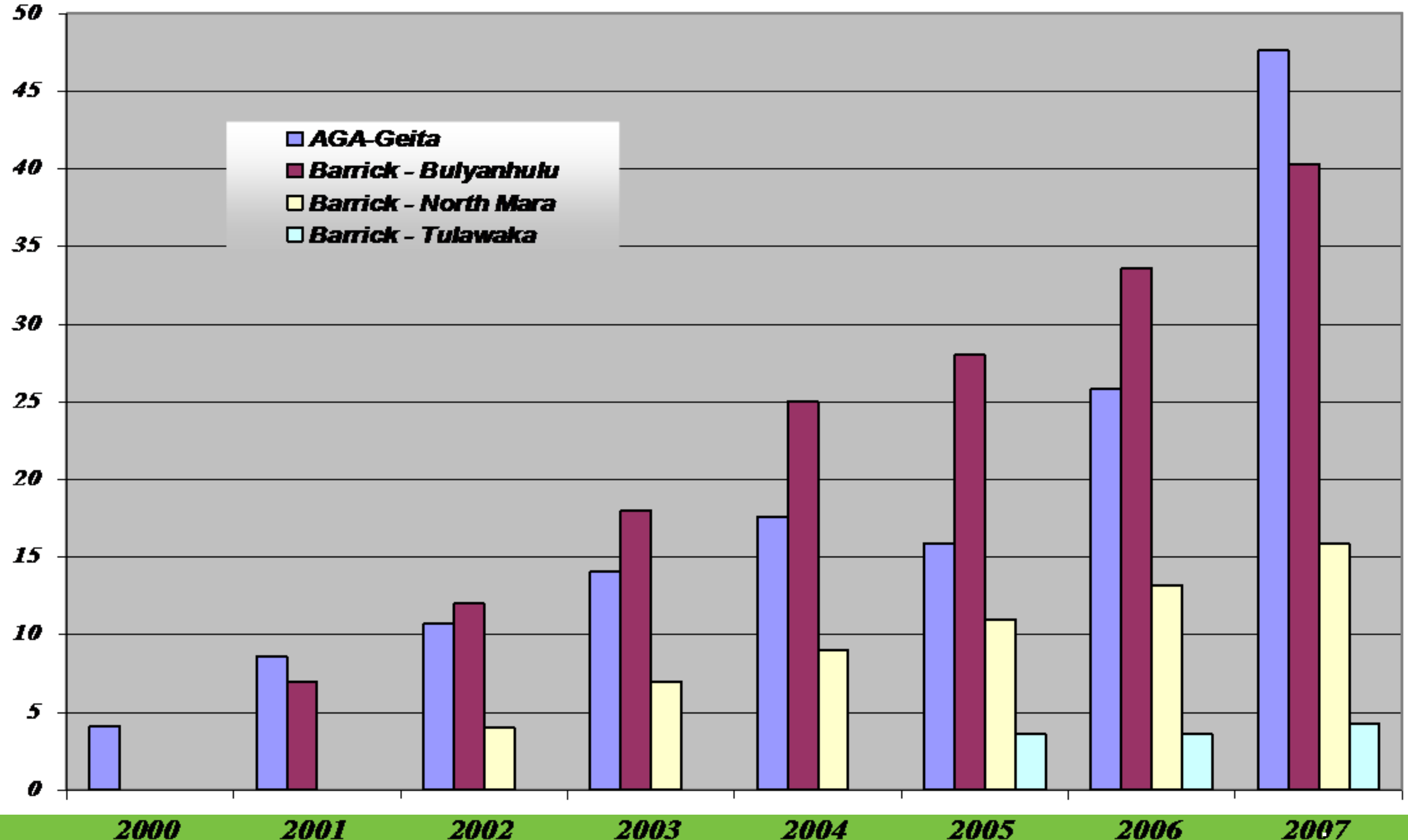
NEIGHBOURS – IMF Projected Growth

	2008	2009	2010
Tanzania	**7.5%**	**5.0%**	**5.7%**
Sub-Sahara Africa	6.9%	1.7%	3.8%
Kenya	2.0%	3.0%	4.0%
Nigeria	5.3%	2.9%	2.6%
South Africa	3.1%	-0.3%	1.9%

Government tax revenues

data are for the FOUR main gold mines only 2000-2007 – based on aggregates from *A Golden Opportunity*

Totals in 2007 = $76 million (conservative assumptions) up to to $100 million or 3.1% to 4.3% of total government tax revenues



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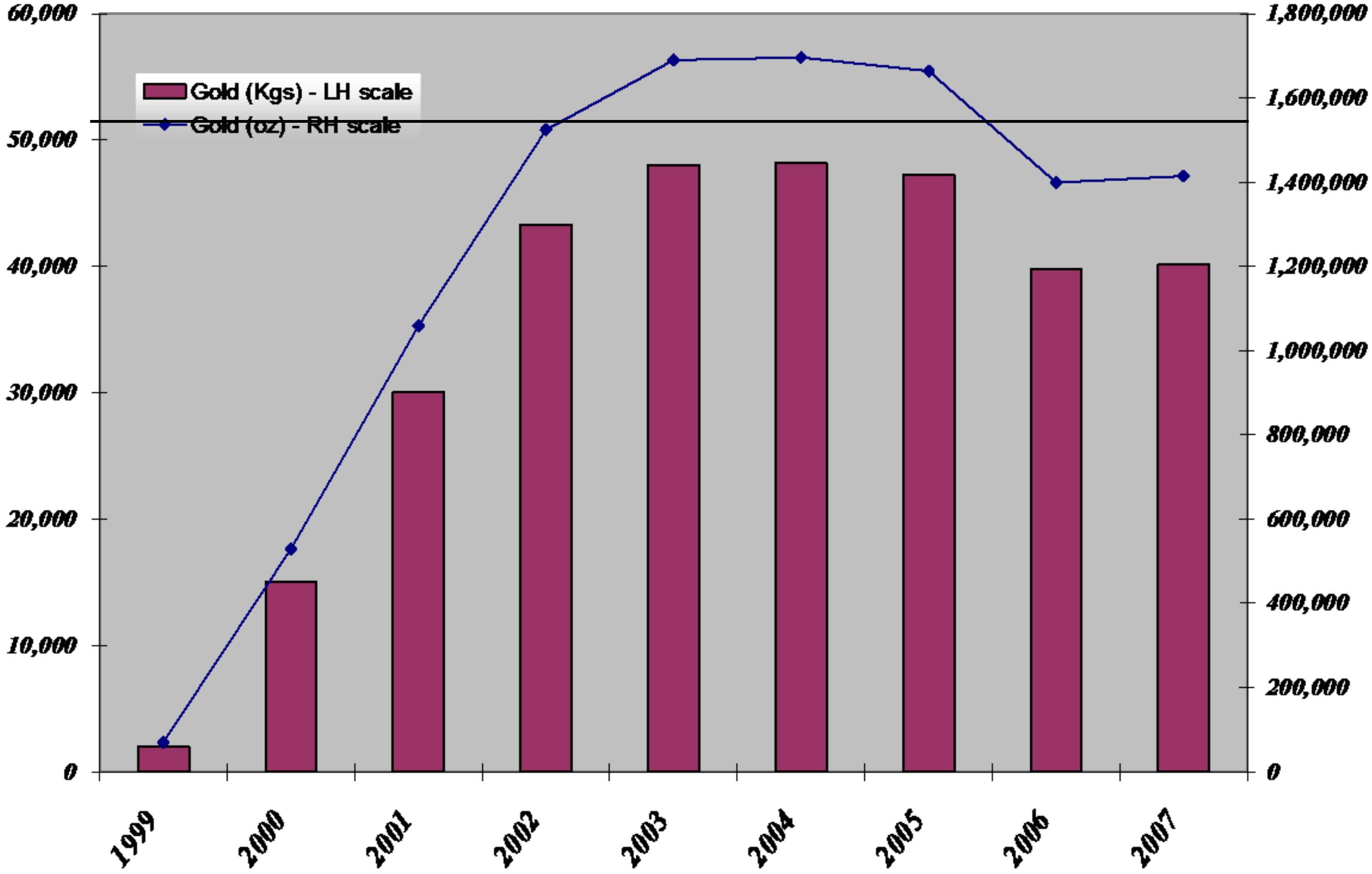
Method

- Data were requested from FOUR major companies (AGA, Barrick, Resolute, IAMGold) covering the FULL life cycles of the mines they operate under headings such as:
    - Capital costs (including labour numbers and costs)
    - Operating costs (ditto)
    - Closure costs
    - Tax Payments under all main headings (royalties, corporation tax, payroll taxes, VAT, licenses etc)
    - Community contributions
- Data were received in time from THREE companies covering FOUR main operating mines (North Mara, Bulyanhulu, Geita, Tulawaka) plus TWO new mines (IAMGold and Buzwagi) and the period 1995 through 2034 (almost FORTY years of data)
- Data were aggregated by an independent person appointed by the World Gold Council. Research team only saw the AGGREGATED DATA
- *The results presented today are Preliminary only since the data received have some gaps and a few puzzles still to resolve.*

Let’s review the results under FOUR main areas of

- Production
- Balance of Payments – including exports, imports and debt service payments
- Government Revenue
- Employment

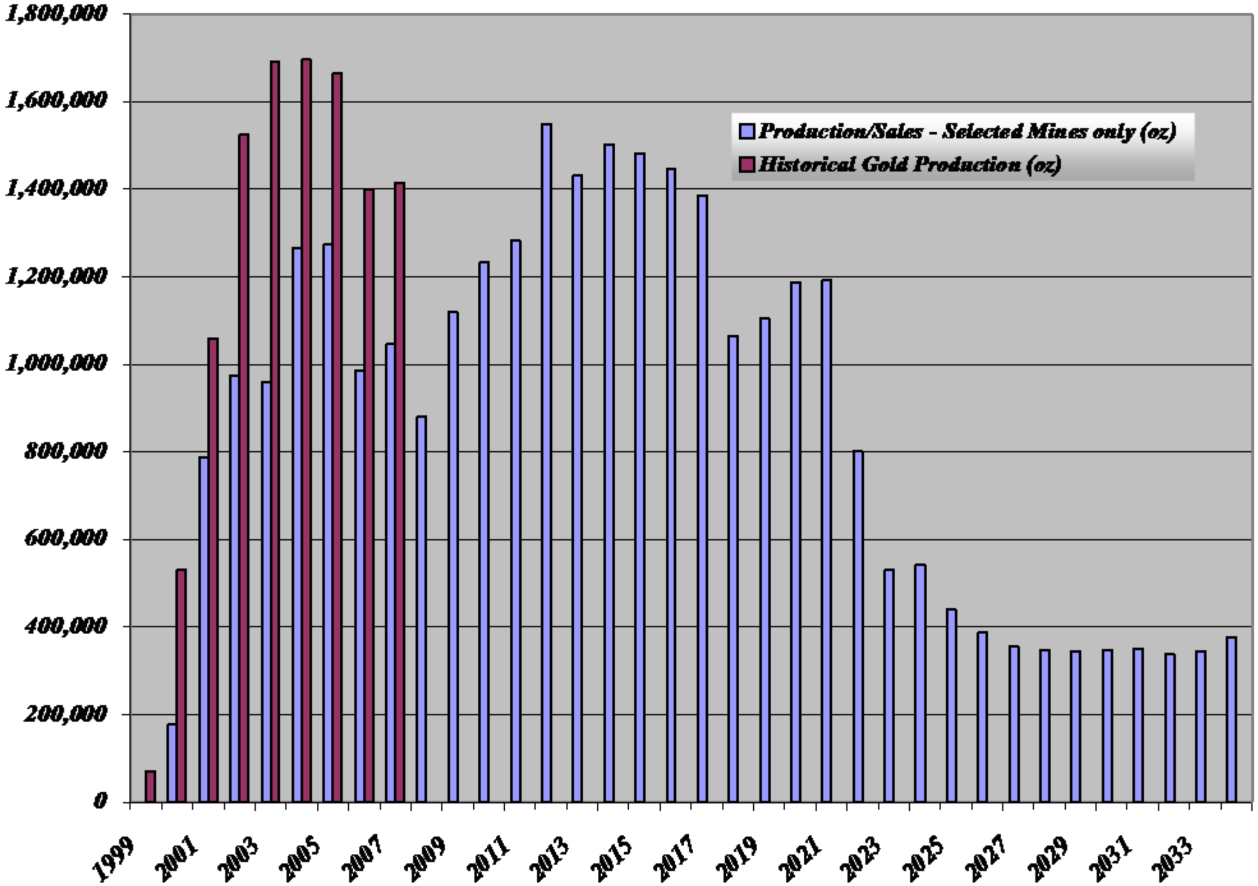
Gold production 1999-2007 (kgs and oz)



Note:

Total production grew from less than 0.1 million oz in 1999 to around 1.5 million oz by 2007

Expected production to 2034 (oz)

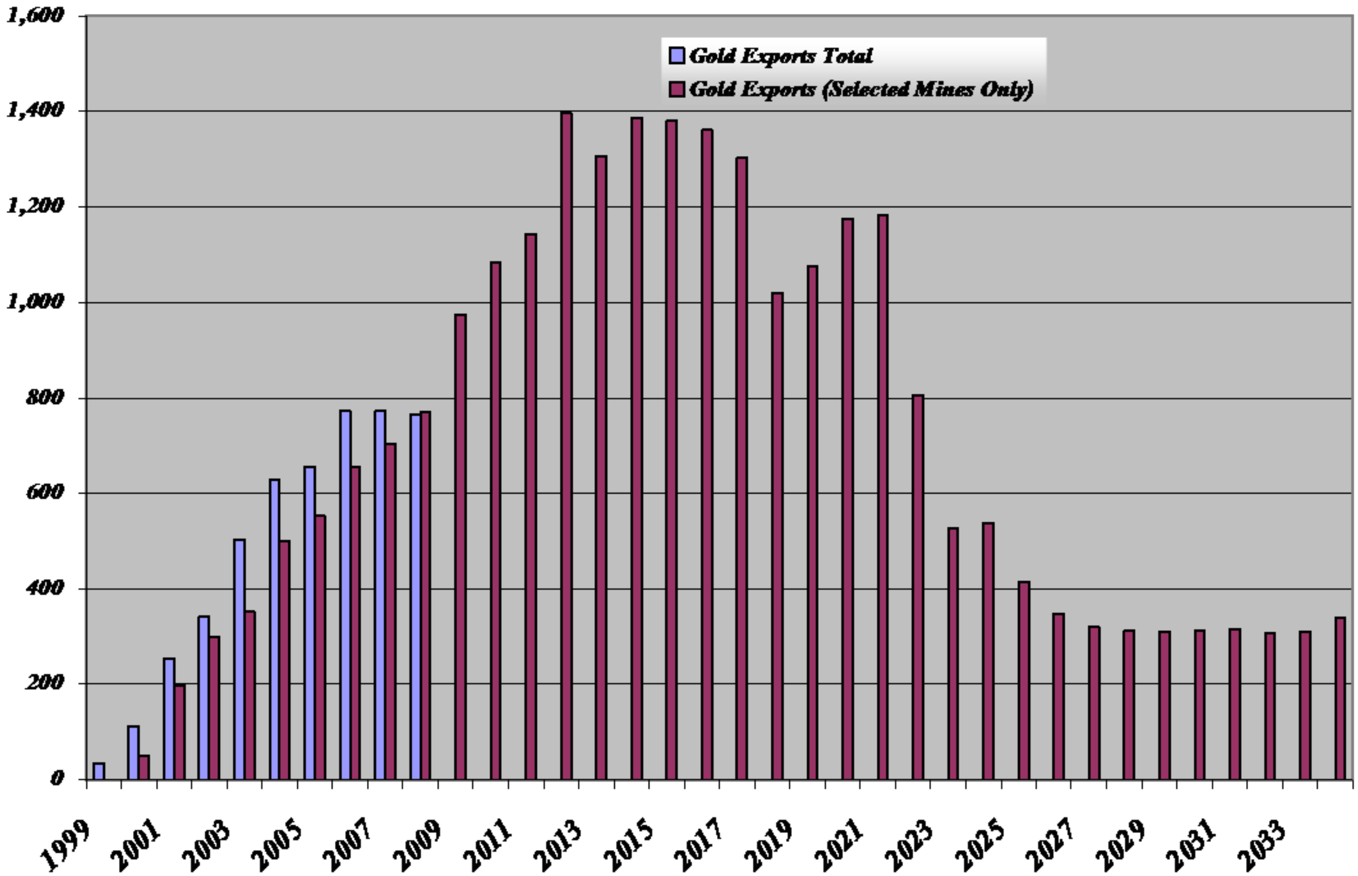


Note:

Production in the identified mines goes from 1.05 million oz (33,000 kg) in 2007 to 1.55 million oz (52,000 kg) by 2012

Gold exports 1999-2007 ($ million)

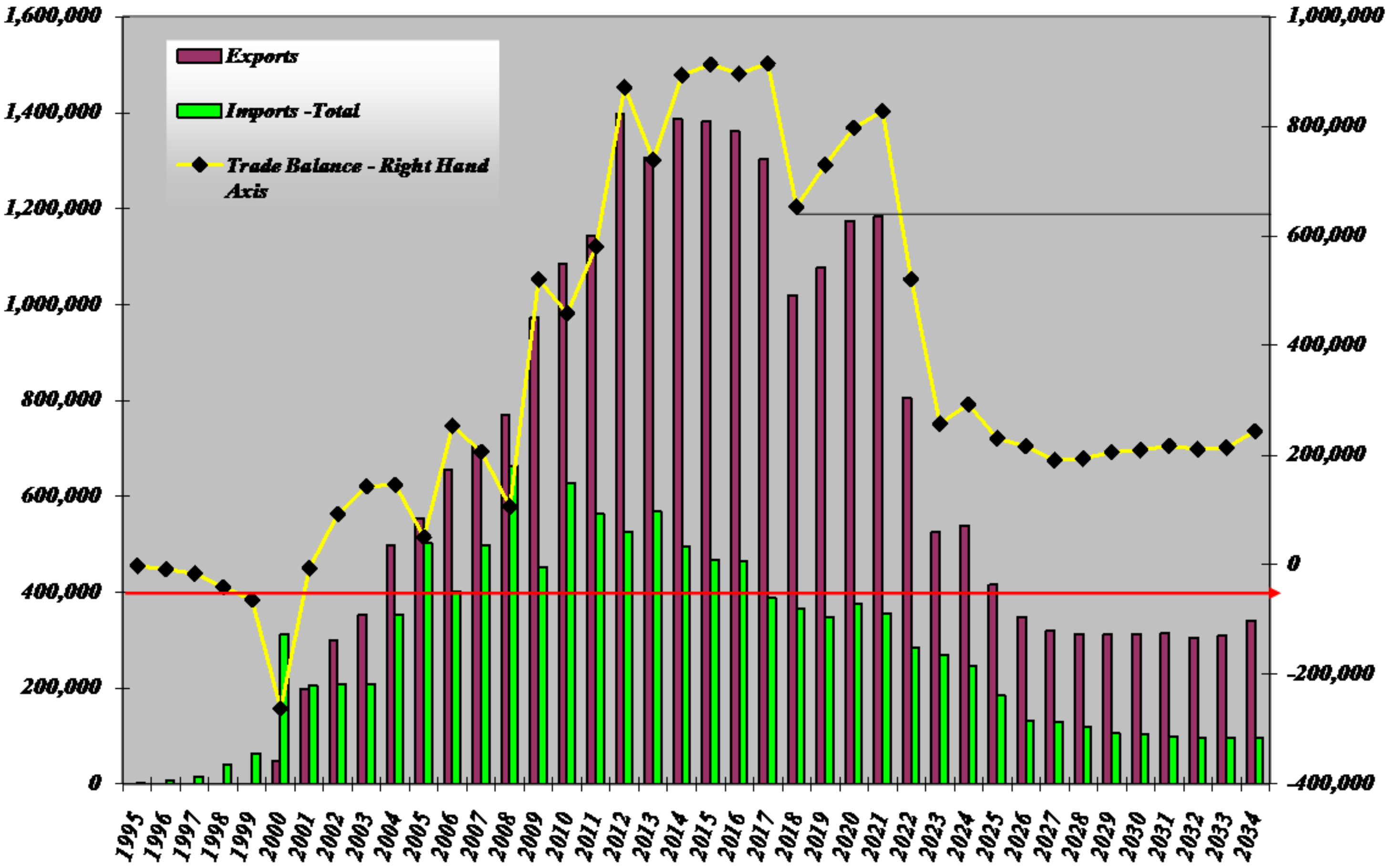
… and expected to 2034



Note:

Export sales rise from some $750 million in 2007 to an expected 1.4 billion from 2012 through 2014 – but subject to the respondents assumptions about the gold price

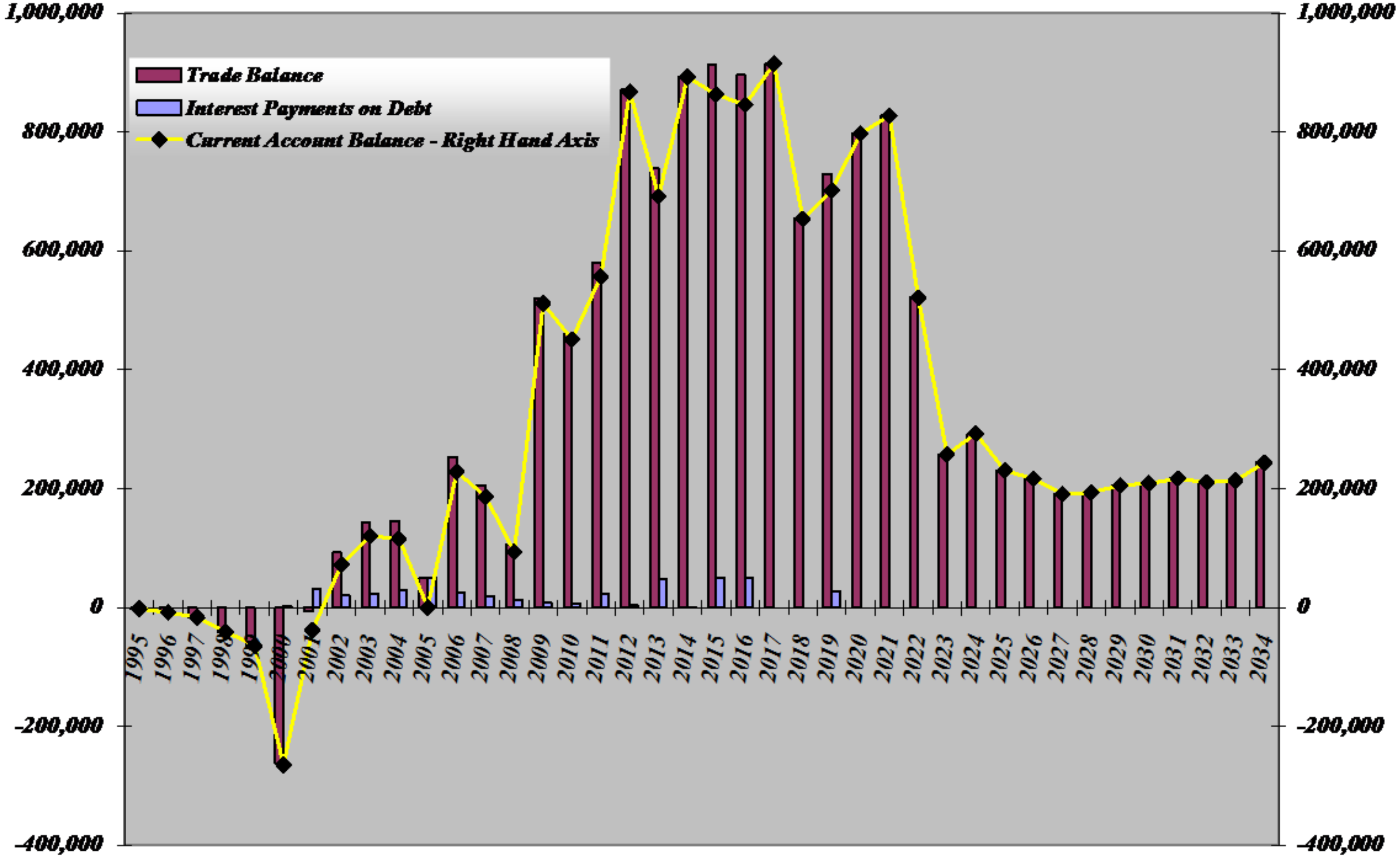
Gold: external trade balance 1999-2034 ($'000)



Note:

The peaks of imports in certain construction years 2000 to 2008 – in spite of this the mining trade balance is always positive after 2001

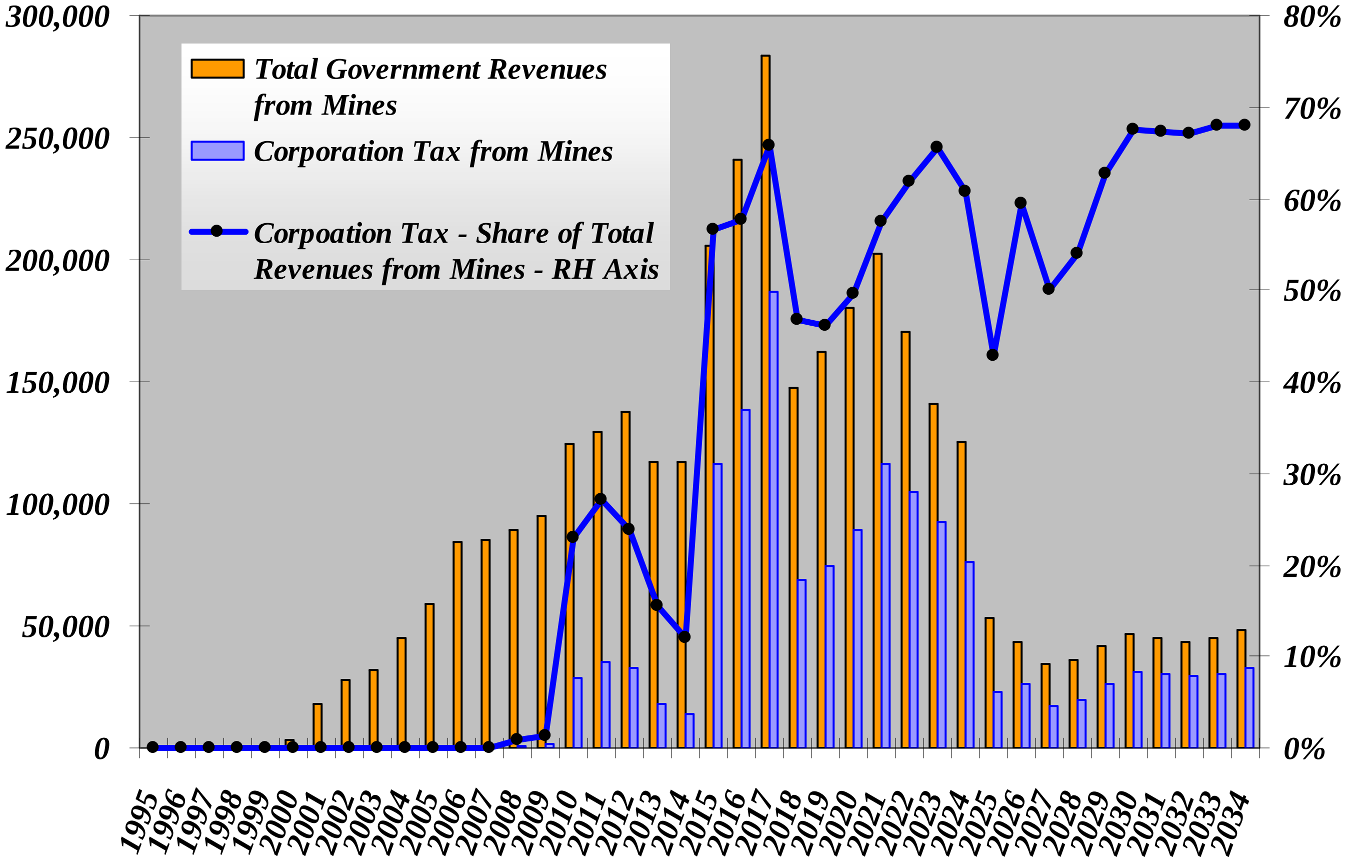
Gold: Current A/C Balance of Payments 1995 - 2034 ($'000)



Note:

Interest payments although large in total absolute amounts ($442million) still leave a large Current A/C BoP surplus. But we do not yet know the size of dividend payments.

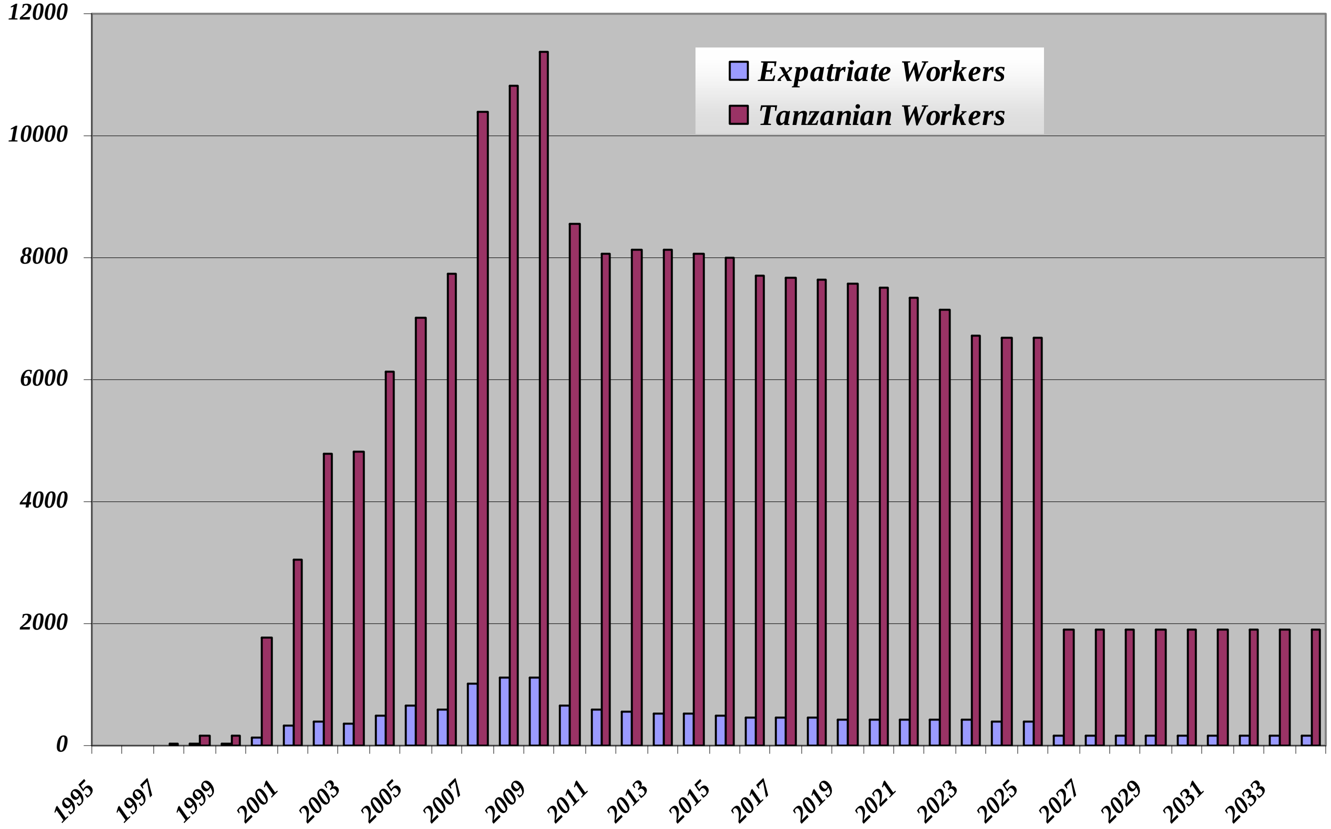
Government revenues from gold mining: 1995-2034 **($'000)**



Note

Total revenues rise from $85 million in 2007 to a peak of $284 million by 2017 (7% or more of total government tax revenues) . By about 2015 the Corporation tax becomes the most important source of mineral tax

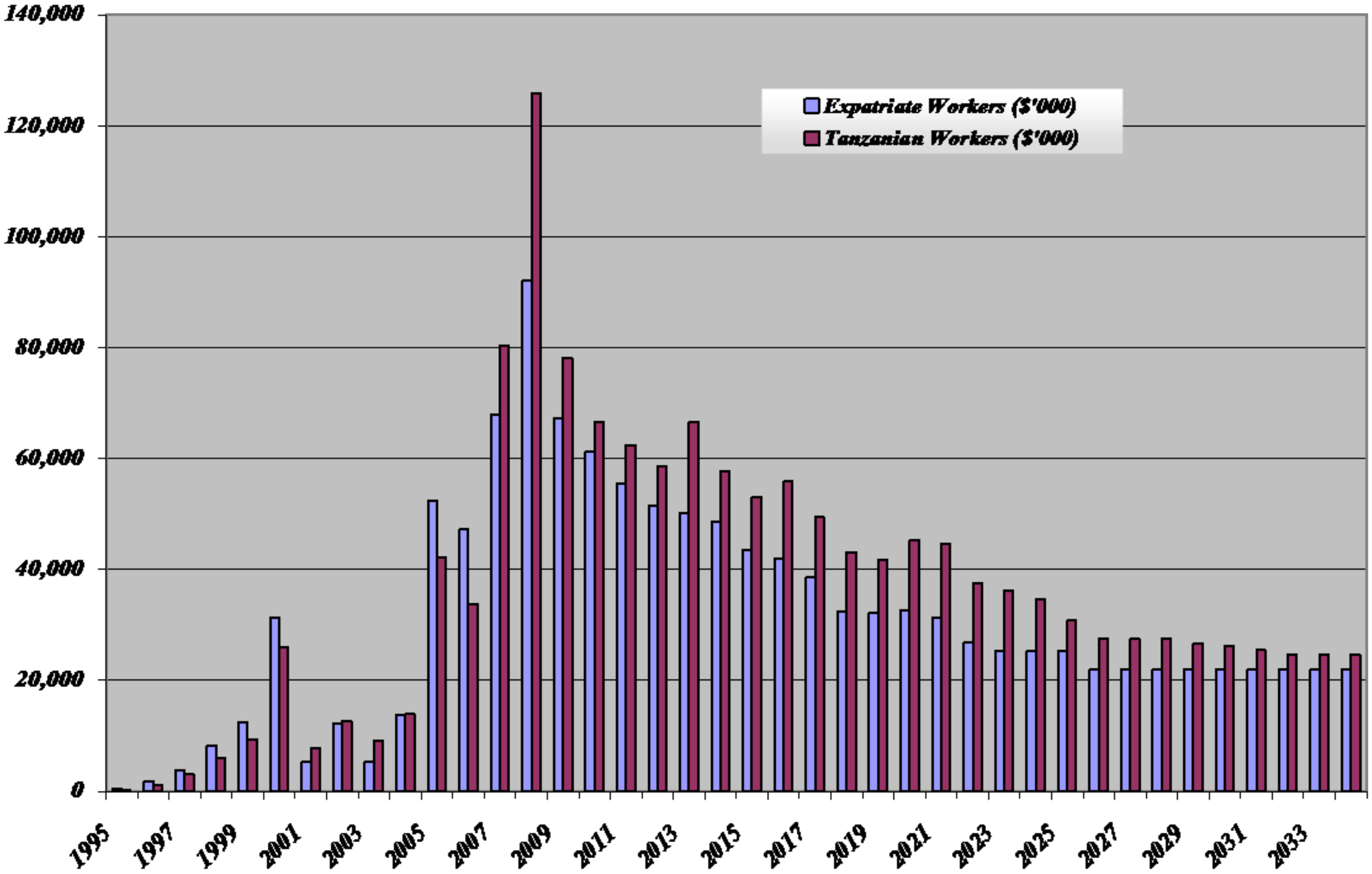
Gold sector employment 1995-2034 **(numbers)**



Note:

The expected decline in expatriate employment from 2010 and the significant DIRECT employment of Tanzanian workers

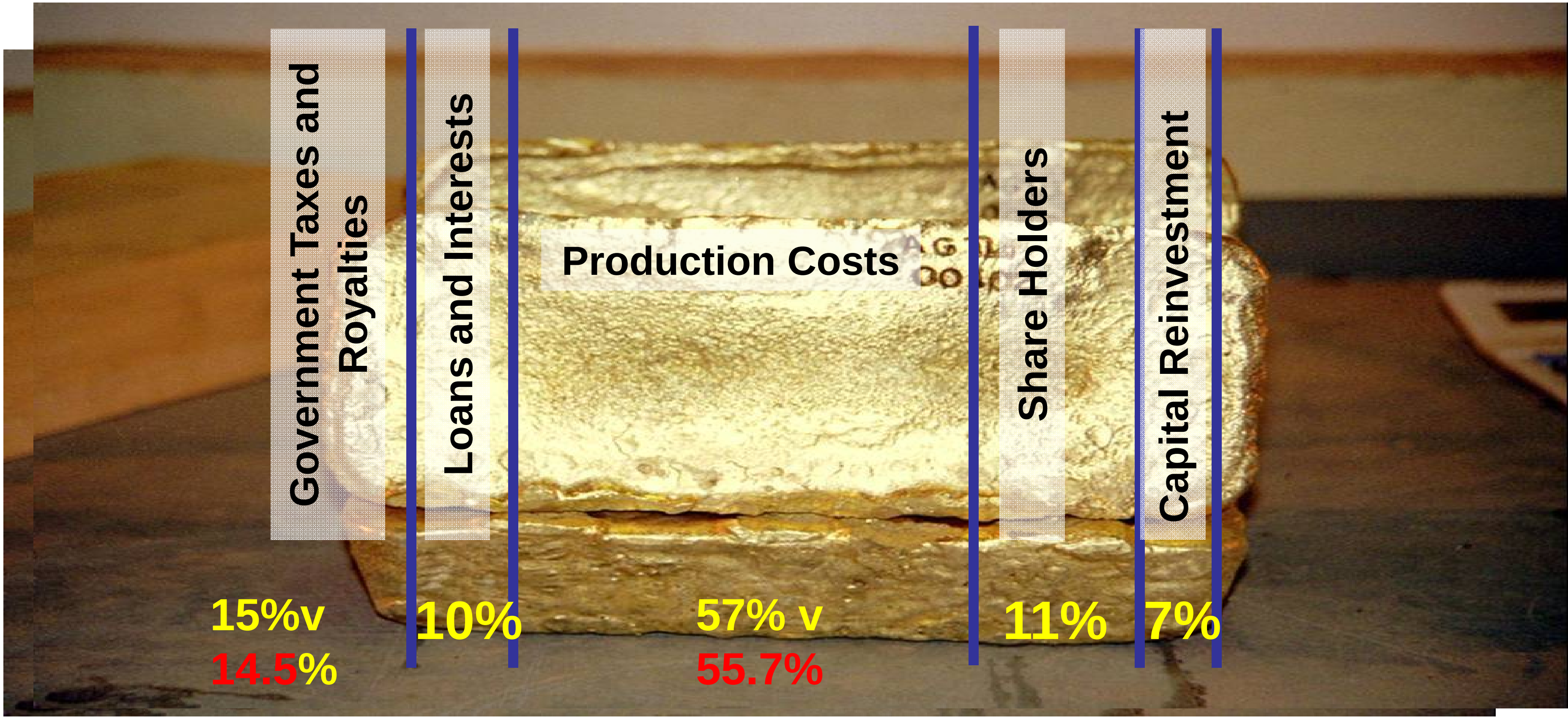
Gold sector: wage bill 1995-2034 ($'000)



Note:

The wage payments to Tanzanian workers exceeded $120 million by 2008 but will settle at around $60 million for the next few years (excl contract workers)

Work Still to Finish – The Sharing of Mining Revenues ($25,012 million to 2034)



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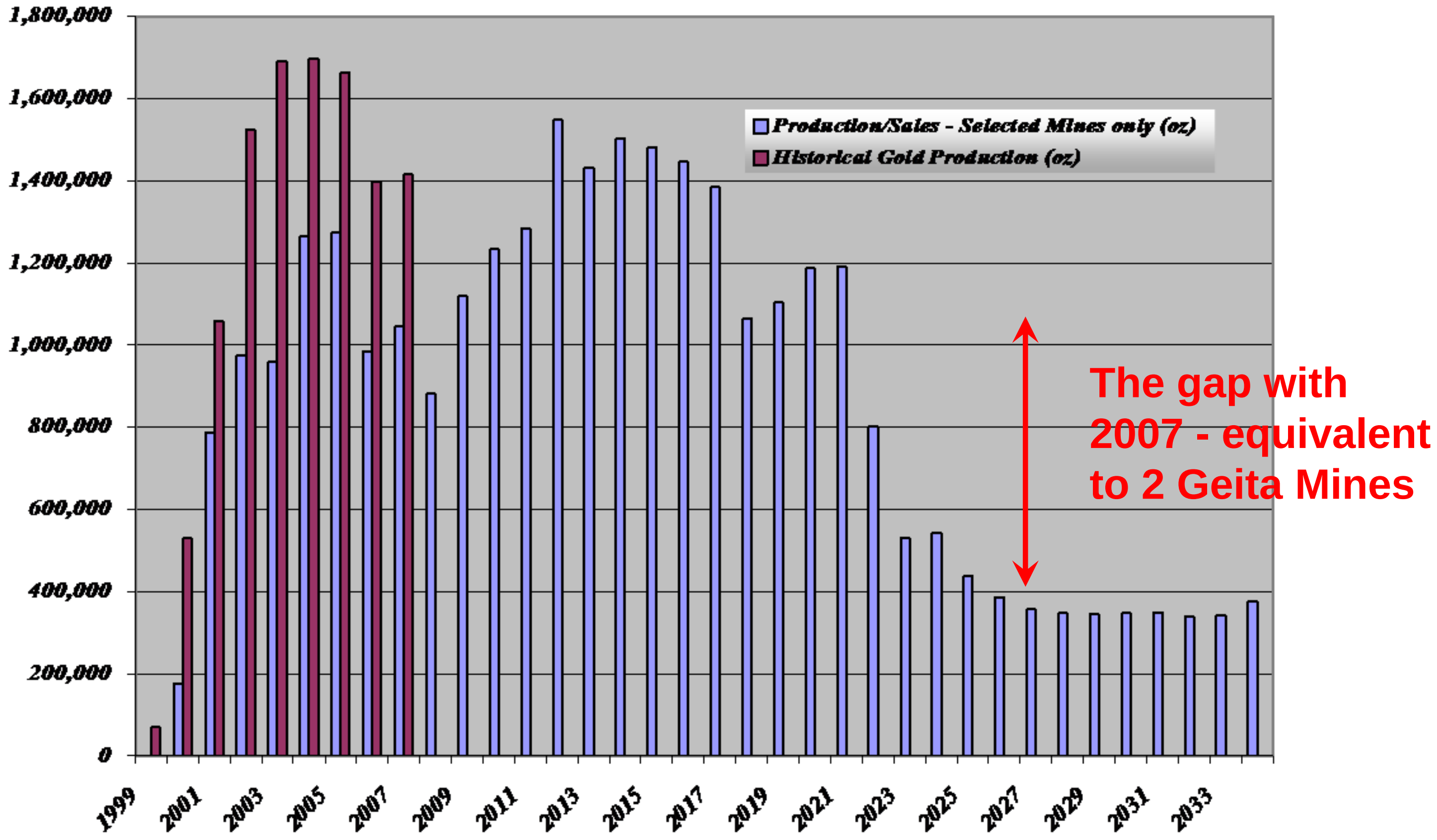
FOUR Key Conclusions

- In nine short years Tanzania has already built a high level of macroeconomic reliance on mining in several areas (FDI, Exports and even government revenues and employment)
- The life cycle analysis shows that the identified mines *alone* have plans that will greatly increase the contribution of mining in the next 6-10 years (production, exports, and above all government revenues)
- But these increased contributions will call for further additional investments from the three companies involved – *they estimate $2.32 billion in the period to 2034 or an average of 3.4% per annum of their original capital investments*
- In addition, the life cycle analysis clearly shows that the macro contributions of the four identified mines will begin to decline from around 2018 and fall sharply thereafter. *Significant new capacity will be needed to maintain the macro contributions of gold mining even at the levels already achieved by 2007/08.*

for example – Production



Selected Comments

The 17 main areas of recommendation in The Bomani Committee Report contain more than 100 specific recommendations.

Only THREE broad issues are flagged here

These all relate to one of more of the SIX Partnership Areas identifed in Phase 3 of the Resource Endowment Initiative as discussed earlier

1. A More Integrated Approach – involving the other main agencies of Government

See for example, Bomani - recommendations 2.1;2.3; 2.16; 2.17.

This broad direction of reform is vital if the FULL benefits of the mining sector are to be realised. It relates above all to *local procurement,* to *regional economic development planning, and to revenue management* (especially at local level)

Efforts

- to provide improved infrastructure support to mining (2.1)
- to establish more systematic monitoring of the sector via a new Minerals Authority (2.3.10)
- to achieve broader strategies for encouraging local procurement (2.16)
- to develop lower cost energy supplies (2.17) and
- To decentralise some revenues to local levels

will ALL help to incentivise the new mining investments that are needed in the next few years.

2. Improved Fiscal Arrangements

Detailed recommendations on all the main mining taxes are in the Bomani recommendations of section 2.5. Ongoing discussions on the details are ongoing with the companies especially re the extra 15% Capital Allowances.

TWO higher level points

- TRANSPARENCY. Tanzanian participation in the EITI will address many of the complaints about lack of transparency, incomplete adherence to tax rules etc. Extend this to transparent reporting of the USES of the funds and the publication of the Mining Agreements

- EFFICIENT TAXATION. The “royalty” is a poor tax that can have large disincentive effects. Rather than increase the *rate* of royalty as proposed, eliminate the net basis but after that the authorities may be better advised to tighten the Corporation Tax rules. As we have seen very large tax revenues will in any case accrue from this source in a few years time

More Help to Local Communities

- Recommendations contained in Bomani - 2.1, 2.5.10,2.6, 2.8. 2.9,2.11, 2.12, 2.16 can all help in different ways to achieve this objective

- Above all it is critical to help build complementary activities (mining clusters) that can add to the relatively limited ***direct*** employment from the mines themselves

- But a very considerable effort to build *new partnerships* around these ideas will be called for.

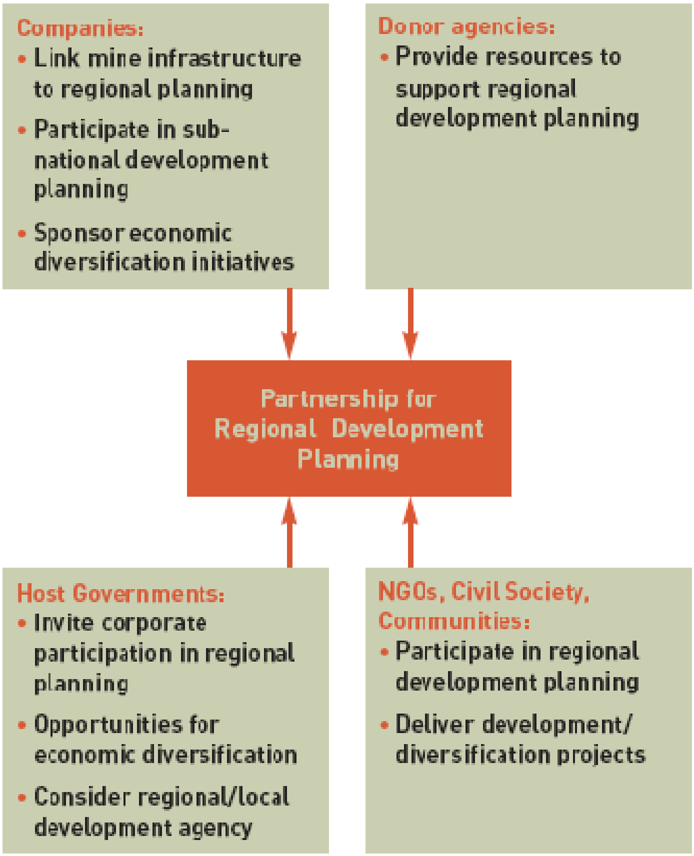
- It is hoped that a further stage of the REi work on Tanzania can probe these issues more carefully

- In this context the ideas emerging from work in Ghana (next slide) may be pertinent.

Local Development - Ghana Example

CONCEPTUAL

Figure 3: Mining and Economic Development – Regional Development Planning



From CONCEPT to REALITY

The REI Phase III Stakeholder Workshop in Accra – February 2008

1.recognised that the new District Development Fund is a sound example of harmonisation with

- Government committed to a systematic District Assembly review process and new budget support for districts both for capacity building and projects
- Donors committed to a far more harmonised use of their large donor funds at local level (led by CIDA) to support government efforts

2.agreed that there was no obvious practical impediment to the large local socio-economic spending of mining companies being embraced as a third element in this partnership in the mining-affected districts of Ghana

3.committed publicly to support company, Ministry of Finance and donor efforts to establish this enhanced partnership

NB This was one of FIVE priority partnership actions agreed at the Workshop (from a much longer list that the REI research had identified).

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