



ICMM
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Tanzania: building bridges on mining policy

The Challenge of Mineral Wealth:
using resource endowments to foster
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Tanzania: building bridges on mining policy

Amid a lively political debate in Tanzania about the role of mining, the latest phase of the Resource Endowment initiative in the country supported two innovative and interrelated elements of work, both aimed at forging a deeper consensus on ways forward: an analysis of the current and future economic impacts of major mines, and a workshop bringing together the industry and policy makers to debate key issues.

In many countries, there are ongoing debates about how to enhance the development contributions of mining. In Tanzania, a relative newcomer to the mining sector and a jurisdiction where fiscal incentives have been used to attract mining sector development, these debates have become particularly intense, and a government review of mining sector legislation is now underway. Debates include the role of fiscal incentives and stability agreements in limiting the contribution to national welfare from the sector.

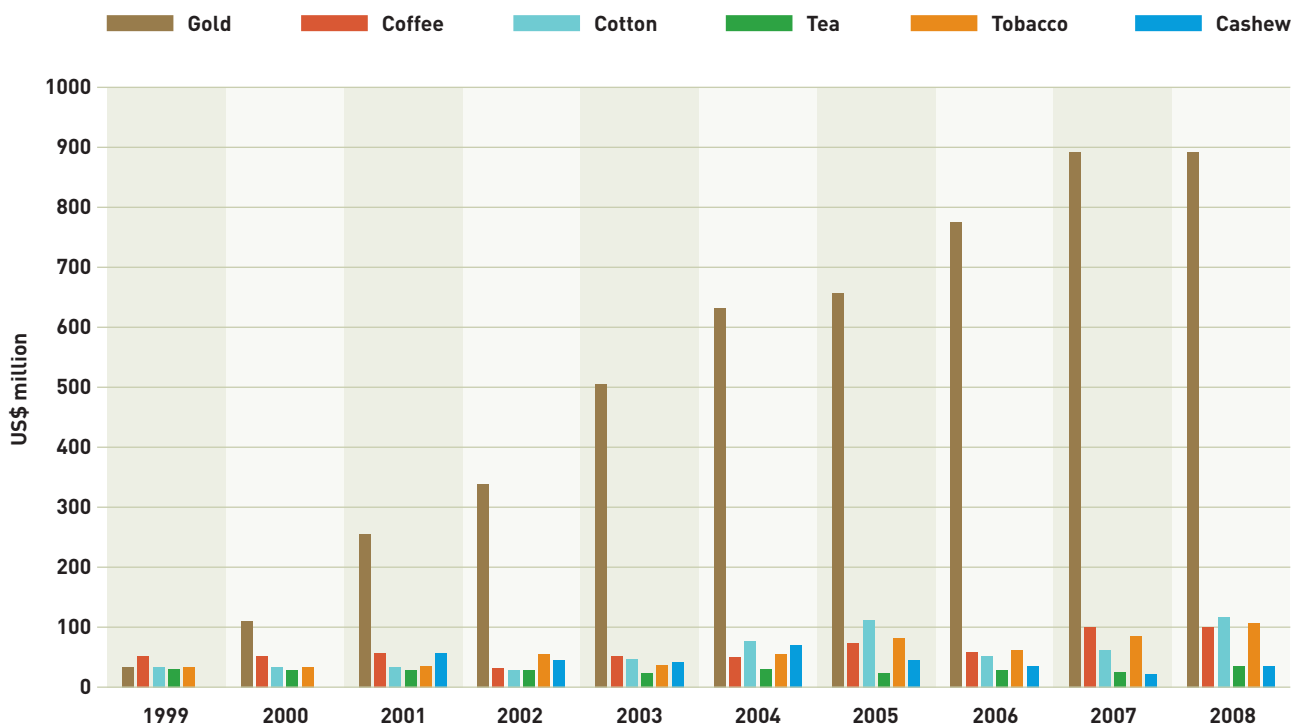
Critics of the industry claim that the foreign mining firms which have entered the country in recent years are generating inadequate revenues for the public purse due to tax breaks and unjustifiable fiscal incentives. The mining companies, by contrast, argue that given the huge levels of upfront investment and high costs of operation for major

mines it often takes several years for such projects to become profitable. Competitive and stable fiscal terms are needed, they say, to justify this investment as well as the ongoing investment the mines may require over 20 years or more. Significant revision of these terms, they say, could make such investments unviable and actually strangle the sector before it has fully developed.

Without doubt, the rate at which the commercial mining sector has developed in Tanzania since 1998 has been remarkable. In less than a decade, it has become easily the country's principal source of foreign direct investment and the number one earner of export revenues – with gold now a leading export commodity (see Chart 1). Indeed, mining has attracted more than US\$2bn of the US\$3bn total foreign direct investment flows to the country since 2000, making Tanzania – according to UNCTAD – the largest recipient of non oil FDI in Africa after South Africa. Importantly, Tanzania saw minimal commercial mining investment in the decades prior to 1998, largely due to policies and an economic climate widely viewed as unfriendly to private investors.

At the time of writing, the debate over the fiscal regime in Tanzania is at a critical juncture as the government considers new legislative proposals: in particular the recommendations of a Presidential Mining Review Committee chaired by Justice Mark Bomani (the 'Bomani Commission'). A fully revised Mining Act promised since 2005 is expected relatively soon and will help determine mining's long-term role in the economy.

Chart 1: Exports – gold has significantly overtaken traditional exports in relative importance (US\$ million)



Building on past work

To set some context, the overall purpose of the Resource Endowment initiative – an initiative with a global scope – is to identify ways to measure and enhance the socio-economic contribution of mining¹. In phase 2 of the initiative, research in four ‘case study’ countries – including Tanzania, but also Ghana, Chile and Peru – was conducted using an analytical framework and tools that had in turn been developed in the first phase.

Each of these four country cases comprised an assessment of the impacts of mining at the national level and also around selected mining projects. Among the findings of the Tanzania case study was that rapid expansion of mining in the country – due to friendlier mining legislation and macro-economic stability – had brought significant economic benefits. At the same time, it had also led to social tensions including, for example, conflicts between small-scale and major commercial miners².

An overall finding from the phase 2 research – that is, looking across all the country cases – was that more collaborative action and partnerships between mining companies, government, civil society organizations and donors would be needed to unlock the full potential benefits of mineral wealth. Phase 3 thus sought to explore this proposition in more detail and develop specific channels through which such partnerships could be developed. In Tanzania, however, the intensity of the national debate around mining suggested the need for a step-by-step approach, one focused on building a basis for consensus, rather than immediately seeking to launch new partnerships. The rest of this note explains.

Missing consensus

ICMM kicked off phase 3 in Tanzania during 2007 with preliminary work on mapping existing partnerships in the country. However, this encountered difficulties in engaging relevant groups and gathering the necessary information (a similar process had proved easier in other countries such as Ghana). This was an early indication of the more challenging stakeholder environment in Tanzania, with the national debate on mining becoming increasingly intense and contentious.

In spite of these practical difficulties, ICMM and the World Bank successfully co-hosted an initial workshop in December 2007 in Dar es Salaam. This brought together various stakeholders, including senior government officials, mining company representatives and civil society organizations. Among the recurring themes of discussions were the need for better communication about the role and potential contributions of mining companies; a desire for a collaborative approach to infrastructure development; and the importance of revenue management and sharing.

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Feedback from participants indicated that this initial workshop was a small step in the right direction: having a subset of stakeholders speaking together was better than no dialogue at all. But it was clear that more work would be needed to resolve disagreements. The establishment of the Boman Commission in November 2007 had marked a potentially substantial reform process but also signaled future uncertainty for the mining companies regarding future fiscal arrangements. At that stage, ICMM judged that a potentially useful contribution would be to strengthen the evidence base regarding mining in Tanzania as a whole so that all parties could draw upon this as a new basis for dialogue.

Strengthening the fact base

Jointly with the World Gold Council, ICMM commissioned an analysis looking not only at the industry’s economic impacts to date, but also at how these impacts could be expected to evolve on the basis of current plans. Data and projections were sought from four companies³ operating six major mines in Tanzania, who were asked to supply information covering the full ‘life cycle’ of these mines. In the event this covered the period from 1998 to 2034. This approach was wholly innovative and ICMM is not aware of any similar forward-looking analysis for the mining industry (as opposed to individual mines) in any other country⁴.

¹ See www.icmm.com/resource-endowment

² For more details see Spotlight note on Tanzania phase 2 work: www.icmm.com/document/195

³ AngloGold Ashanti, Barrick Gold, Resolute and IAMGold

⁴ This work was conducted by a team from Oxford Policy Management in the UK led by Alan Roe

In terms of the process, the companies involved provided life cycle data for a total of five active mines and one new mine, using a standardized and detailed reporting template. Data collected included figures on capital investment, operating costs including wages and salaries and closure costs, as well as all anticipated tax payments and community contributions based on existing policies. An independent expert appointed by the World Gold Council aggregated the data to the degree necessary to maintain the confidentiality of the individual companies.

Four main findings emerged from the analysis. First, notwithstanding the current debate, the economic benefits from commercial mining in Tanzania are already significant even though (a point often neglected in the national debate) the sector is still in its infancy. In addition to the dominant contribution of mining to foreign investment, the sector is already contributing over 3% of government tax revenues (2008), amounting to approximately US\$90m of income that arguably could not readily be replaced from other tax paying sources. Moreover, without gold mining, Tanzania would now be forgoing around US\$750m per year of export earnings. By comparison, this amount is larger by some margin than the net debt relief that Tanzania has received in any recent year, even the years of greatest debt relief.

Second, significantly higher benefits will flow from mining based on the existing companies' current plans and projections, particularly in the next 6-10 years as production and exports are ramped up and the companies become more profitable: by 2017 it is estimated that the five mines included in this part of the analysis alone will contribute

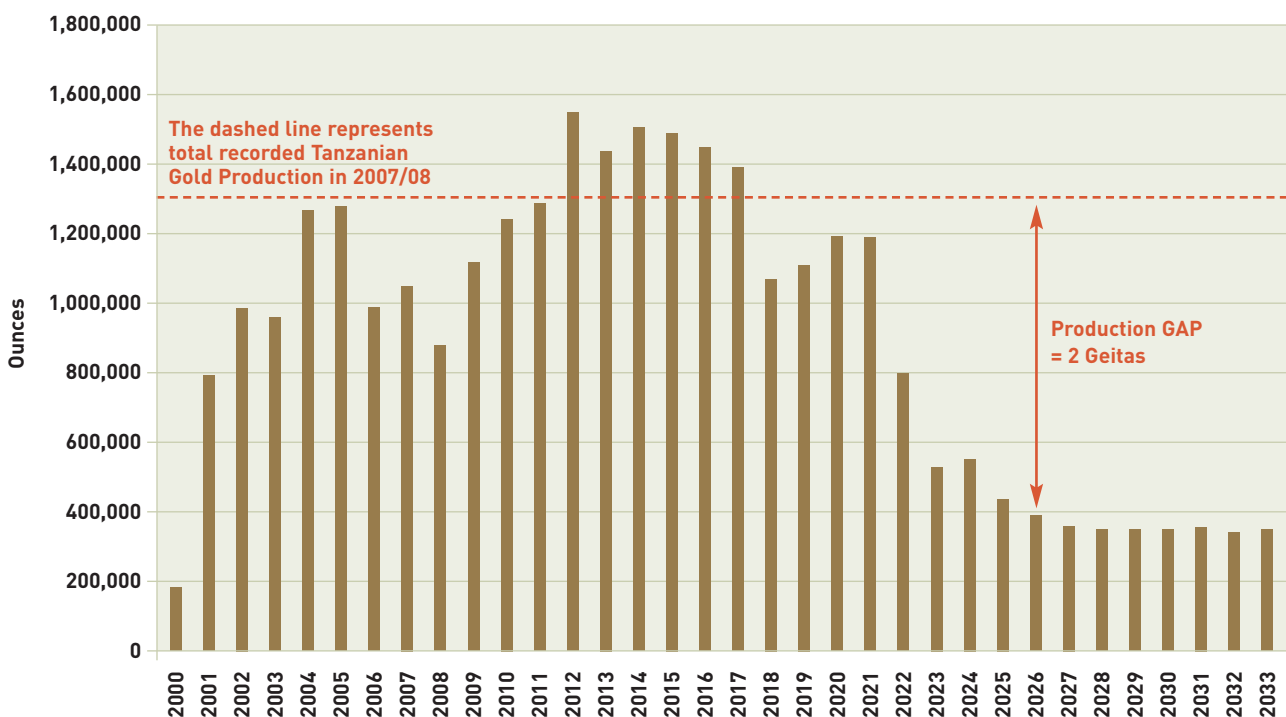
US\$280m, or 6-8% of all government tax revenue. This would represent roughly a 300% gain on today's situation (and it assumes no changes to tax or royalty rates). The bulk of this revenue is expected to come from corporation tax where receipts have so far been delayed by depreciation allowances (which though substantial are a common aspect of tax regimes).

Overall, in the period to 2034, the analysis suggests some 15% of total revenues from mining will go to the government (in the form of taxes and royalties), with around 57% being accounted for by production costs, many of which are incurred in the local economy. (The analysis also suggests that company shareholders look set to receive less than the government over this period as companies will also need to allocate funds to reinvestment and paying off loans and interest).

This links to the study's third main finding: the potential economic contribution from mining will only be achieved if there is major additional investment by the companies in their existing mines (what they term 'sustaining capital'). The companies collectively expect to invest an additional US\$2.32bn in the period to 2034 in this respect. This represents the 'staying in business' costs for these mines.

The fourth and final key finding is that, even with this investment in existing mines, the industry will not be sustained at its present level in the longer term without further capital expenditure to open up new mines. The life cycle analysis shows that the production, export, revenue and other economic contributions of the existing mines will

Chart 2: Gold production in the mines included in the study (oz)



decline rapidly after 2018. Significant investment in at least two to three mines or, as illustrated in Chart 2, the equivalent of two new mines the size of Geita Gold Mine (currently the country's largest gold deposit) will be needed to maintain macro economic contributions at the current level after 2018.

The important implication of the analysis is that if Tanzania wishes to fully capture the potential macro-economic benefits from mining in the medium and longer term, considerable new investment is needed in both existing and new mines. This point has been little recognized in the debate on mining in Tanzania thus far. In its absence, the worrying risk is that policy decisions are made that will inhibit or wholly discourage such investments. Mining in Tanzania, in short, is currently at a watershed: policy decisions made in the coming months could extend or halt the sector's very considerable progress of the past decade.

Building bridges

As intended, the life cycle analysis provided a focal point of discussion at a major workshop held in Tanzania's capital Dar es Salaam in May 2009. Jointly organized by ICMM and the Tanzanian Chamber of Minerals and Energy, this was a more substantial gathering than the 2007 workshop. In particular it succeeded in bringing together a larger and broader cross section of key stakeholders than had been achieved previously. The participants included representatives from no fewer than 14 government agencies as well as the main mining companies.

An opening address by the Chief Secretary of the President's office, Phillemon Luhango, was followed by a discussion of perceptions of mining's impacts and contributions. Company representatives highlighted the importance of fiscal stability in encouraging investment. Government participants, on the other hand, highlighted the pressure to deliver on public and community demands for short-term socio-economic benefits. Broader issues such as infrastructure problems, including the need for adequate power generation and transport facilities, and the need to enforce government policies (for example, on artisanal and small-scale mining) were also discussed.

An important contribution to the workshop was made by Benjamin Aryee, CEO of the Ghana Minerals Commission, based on his experience of the mining industry of Ghana. Mr. Aryee suggested that mining indeed has the potential to bring significant benefits (mining has helped to spur Ghana's stronger economic performance since the mid 1980s, and poverty has fallen particularly fast in Ghana's mining regions). At the same time, reaping such benefits has taken a considerable period of time – far longer, he suggested, than the ten years since the main Tanzanian reforms.

'If Tanzania is to attract the investment it still needs in the mining industry a priority will need to be placed on maintaining a competitive fiscal regime.'

Other lessons from international experience were also pinpointed, including the importance of good governance within mining regions in ensuring the benefits of investments are maximized. Judging by other mineral rich developing countries, it was pointed out, mining's economic contribution often follows a basic pattern: its impact is often greatest in terms of contribution to foreign investment flows (sometimes 60-90% of national totals) and export earnings (mining may account for 30-60% of these) and often only to a lesser degree in terms of its contribution to government revenues (typically 3-20%), national income (3-10%) or employment (1-2%), see Chart 3. However, reforms to strengthen governance, including at the sub-national level, can enhance mining's contribution particularly in the latter areas (for example, by ensuring better local use is made of revenues raised).

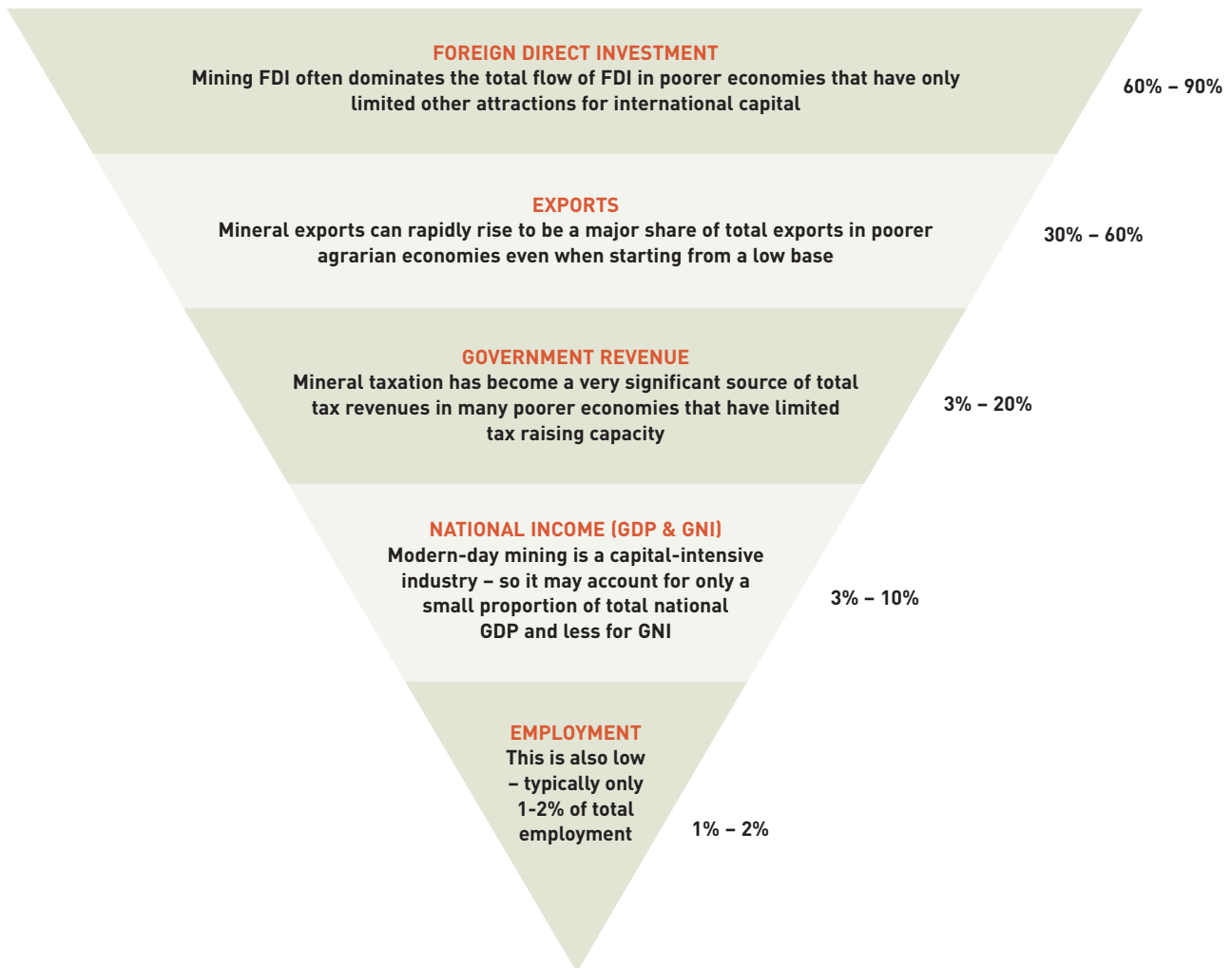
Importantly, the workshop helped encourage more of a consensus than had existed before, particularly on two critical points. First, if Tanzania is to attract the investment it still needs in the mining industry a priority will need to be placed on maintaining a competitive fiscal regime: a risk clearly exists that the needed investments (as identified by the life cycle analysis) will not materialize if current regulatory uncertainty continues. The Minister of Energy and Minerals, William Ngeleja, in his closing address, assured the workshop that a competitive regime would indeed be sustained by the upcoming reforms.

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/resource-endowment

The International Council on Mining and Metals (ICMM) is a CEO-led industry group that addresses key priorities and emerging issues within the industry. It seeks to play a leading role within the industry in promoting good practice and improved performance, and encourages greater consistency of approach nationally and across different commodities through its association members and member companies. ICMM's vision is for a respected mining and metals industry that is widely recognized as essential for society and as a key contributor to sustainable development.

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Chart 3: How big is mining's macro contribution? – A stylized view



The second broad point of consensus the workshop helped to forge was around the need for stronger collaboration between the government and the private sector. More such joint work could help tackle a range of issues including enhancing benefits for communities, strengthening local economic linkages, responding to issues around artisanal and small-scale mining, developing infrastructure for mines, and also communicating accurately the contribution of mining. In the words of one government official, 'We are ready for collaboration with the private sector.'

The workshop was, of course, not able to resolve all divergences of view. The risk that mining firms will continue to delay or abort possible investments because of policy uncertainties remains. Nor are perceptions over the industry among the general public likely to have radically shifted as a result of the workshop. Nonetheless, it facilitated a healthy exchange of views and built more of a common understanding than before. Participants' feedback was positive, with a number pointing to the need for more regular discussion between industry and government. The new evidence base that the ICMM research had offered the group had clearly helped focus the debate.

In short, the workshop and the new evidence presented there provided a forum for much-needed dialogue. It is hoped that this will encourage not just well considered policy decisions by the Tanzanian government in coming months, but also lead over the long term to a new era of genuinely collaborative efforts to enhance mining's socio-economic contribution. Such an outcome would certainly be in line with the aspirations that drive the Resource Endowment initiative.

ICMM would like to thank all of the individuals and organizations in Tanzania that contributed to the Dar es Salaam seminar in May 2009: the Tanzania Chamber of Mines and Energy (TCME) and TCME members: Barrick Gold, AngloGold Ashanti, IAM Gold, Resolute Limited who organized and participated in the workshop; the senior government representatives from 14 line agencies, the Bank of Tanzania and the Tanzania Revenue Authority who brought valuable and insightful perspectives; to Mr. Ben Aryee who spoke to the Ghana experience with gold mining; and to Professor Kapepwa Tambila who facilitated the seminar.

Seminar proceedings were based on a longer paper: 'Mining in Tanzania – What future can we expect?'. This paper is authored by Alan Roe and Mark Essex of Oxford Policy Management. It analyzed information collected and aggregated by Maureen Upton of the World Gold Council.

This Spotlight note has been prepared by Daniel Litvin and Juliet Hepker of Critical Resource.