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Foreign direct investment and poverty alleviation in Tanzania: a case of Bulyanhulu and Geita Gold Mines Limited in Kahama and Geita districts

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Setting

Background

Poverty alleviation is a major concern and challenge for many developing countries such as Tanzania. Poverty can be reduced mainly through achieving higher economic growth and ensuring that the poor benefit from this growth (Mbelle, 2007; Raworth *et al.*, 2008). According to Kabelwa (2006), there is evidence that Foreign Direct Investment (FDI) significantly contributes to economic growth, both in host and home countries. This is clearly noticeable in sectors with concentrated FDI, for example, in gold mining FDI has been an important engine of growth and has increased gold exports, while in banking it has contributed to the modernisation of the sector (Phillips *et al.*, 2001; Kabelwa, 2006; Cooksey, 2011).

FDI has led to rationalisation of privatised enterprises increasing their competitiveness (UNCTAD, 2003; Kabelwa, 2003, 2004; Cooksey, 2011). Kabelwa (2003, 2004) also observed that FDI contributed to improved transfer of technology and skills. The overall impact of FDI includes enhancing the inflow of external resources and change from negative to positive contribution of the balance between FDI inflows and profit remittances. Other impacts include the contribution of foreign affiliates in increasing overall exports and inflows of hard currency from various FDI sectors; increased share of FDI in capital formation and thus growth; and the diversification of the economy away from agriculture towards mining and services (Phillips *et al.*, 2001; UNCTAD, 2002). It

is argued that with proper interventions such economic benefits can play a crucial role in the process of poverty alleviation. In general, FDI has become a significant force in both poor and rich economies because of its impacts on economic and socio-cultural development as well as livelihood (Luvanga & Shitundu, 2003; UNCTAD, 2003, 2004).

Development of Tanzania's mining sector and changes in economic policy

The development of Tanzania's mining sector has three major periods: pre-independence, post-independence socialist and economic liberalisation (Cooksey and Kelsall, 2011). These periods can be defined by policy changes and production trends. During the pre-independence era the mining sector was in steady production in terms of volume of minerals excavated, value and contribution to a gross domestic product (GDP). Production stagnated after independence and especially after the Arusha Declaration (AD) in 1967 when all mining operations were nationalised and mining's sectoral contribution to GDP became negligible (Lange, 2006).

The state owned State Mining Corporation (STAMICO) dominated all mining and mining related operations, crowding out the private sector. Lack of capital, expertise and commitment—compounded by poor management—practically closed all mines in the 1970s. The changes in mining policy of the late 1980s, legally allowing private companies and individuals to participate in mineral exploitation, led to booming mineral production and exports. The mining policy changes of the 1990s, which sought to attract foreign mining and exploration companies, produced an influx of FDI, the bulk going into the gold mining sector (Cooksey and Kelsall, 2011).

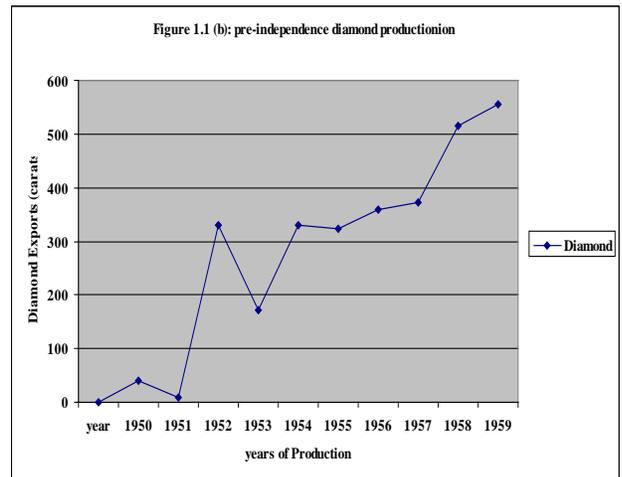
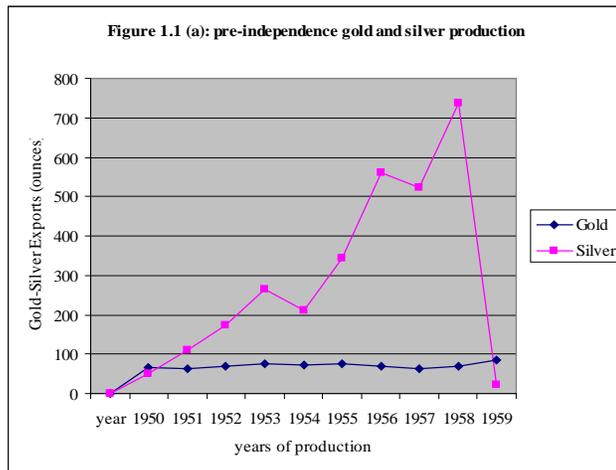
Pre-independence era

The Pre-independence era refers to large- and small-scale operations of foreign owned mining companies during the colonial period (1885-1919 under Imperial Germany and later 1919-1961 under Great Britain). Mining operations were broad, from exploitation of precious metals to industrial minerals. Pre-independence mines included Sekenke, Geita and Mpanda for gold and Mwadui for diamonds. Mineral production increased

consistently in this period, save the interruption during the Second World War (Mkinga, 2006; Cooksey, 2011). After the war mineral exports kept increasing, and by 1959 minerals exports exceeded pre-war production levels. Between 1950 and 1959, a total of 3,005 carats of diamond, 0.7 million ounces of gold (22.4 metric tons) and 3 million ounces of silver were produced (Kulindwa *et al.*, 2003; Figure 1.1 a & b).

During the same period (1950-1959), gold production increased by 30% while diamonds reached highest production increases with 1,359%. The increase in gold was attributed to increased production from Geita gold mine, while the expansion of Mwadui diamond mine led to the spectacular rise in diamond production (Chachage, 1995, Lange, 2006; Cooksey, 2011). Outputs dramatically fell to negligible proportions just before independence, due to growing political and economic uncertainties, which discouraged large foreign investors, and the persistently low price of gold at the time (\$35 per ounce) (Sanga, 2007; Lange, 2006; Cooksey, 2011).

Figures 1.1 a & b Pre-independence mineral production



Source: Mkinga, 2006

Post-independence socialist era

The change in economic policy in 1967 and the resulting nationalisation of all large companies considerably affected the mining sector (Cooksey & Kelsall, 2011). Private mining—by private persons or companies—was prohibited and only STAMICO could conduct exploration and mining for all minerals. From 1967 to 1989, total annual mineral exports fell from \$35.2 million to \$16.9 million, a reduction of 52%. The exports of other commodities grew from \$208.8 million to \$363.3 million, an increase of about 74% (see Table 1.1). Mineral production data for 1961-1966 were not reflected in this analysis due to poor storage of information.

Table 1.1 Tanzania's mineral exports (\$ million)

Year	Mineral exports (\$ million)	Other exports (\$ million)	Total exports (\$ million)
1967	35.2	208.8	244.0
1970	16.7	229.3	246.0
1980	38.9	469.1	508.0
1985	19.6	305.1	324.7
1986	21.5	324.9	346.4
1987	13.4	333.4	346.8
1988	12.8	359.2	372.0
1989	16.9	363.3	380.3

Source: Kulindwa *et al.* (2003).

Liberalised economy

In the late 1980s, Tanzania made a U-turn in its economic policy and permitted the private sector to participate in mining operations: both private companies and individual miners could operate legally. The minerals that were previously being smuggled started to flow through legally authorised purchasing institutions (Kulindwa *et al.*, 2003; Lange, 2006). Many Tanzanians pursued artisanal mining thus increasing mineral exports, mainly gold. Between 1990 and 1998, mining production and exports was dominantly precious minerals from artisanal mining (see Table 1.2). Artisanal mining or small-scale mining refers to a subsistence mining practice. The miners are not officially employed by

a mining company but work independently instead; they mine or pan for gold using their own resources. Small-scale mining includes enterprises and individuals who employ workers for mining, generally using hand tools and mining seasonally—for example, crops are planted in the rainy season while mining is pursued in the dry season. However, they also frequently travel to mining areas and work year round.

In 1991 and 1992, mineral exports constituted 13% of Tanzania’s exports, earning the country \$44 million and \$53.2 million respectively. Although mineral exports increased during the era of economic liberalisation, the volume of mineral exports from Tanzania remained negligible compared to other mineral exporting countries. After a period of aggressively pursuing FDIs produced results, large-scale mining companies entered in the late 1990s and significantly increased mineral exports (Mkinga, 2006). More than 50% of the total mineral exports came from seven large-scale mines: four gold mining companies (BGML, GGML, Golden Pride [T] Ltd and North Mara Mines Ltd), one diamond mining company (Mwadui) and one Tanzanite mining company (AFGEM Merelani Mining Ltd) (Mkinga, 2006). With the involvement of large foreign companies in mineral production, the export of minerals steadily increased in volume, value and as share of contribution to GDP.

Table 1.2 Liberalised mineral exports (mainly from artisanal miners)

Year	Mineral exports (\$ million)	Other exports (\$ million)	Total exports (\$ million)
1989	16.9	363.3	380.3
1990	26.3	272.7	399.0
1991	44.0	286.1	330.2
1992	53.2	243.8	397.0
1993	41.5	325.7	367.2
1994	37.0	482.3	519.3
1995	15.2	646.0	661.2
1996	29.6	738.4	768.0
1997	27.6	689.5	717.1
1998	22.6	653.6	676.2

Source: Kulindwa *et al.* (2003).

In 1999 mineral exports generated \$85.6 million (16% of all exports); in 2000 \$181.9 million (27% of all exports); while in 2001 they brought in \$302.2 million (39% of all exports). In 2002 mineral exports accounted for 43% of all exports and brought in \$383.8 million. The trend continued in 2006, with mineral exports earning \$836.9 million or 48% of all exports, and 2007 with \$886.5 million earned or 54% of all exports (Table 1.3).

The gold mining sector has been growing faster than any other FDI supported sector (URT, 2005). Consequently, Tanzania is among the leading gold producers in Africa, in third place after South Africa and Ghana. Gold exports have increased almost three-fold in terms of value, from \$300 million (30 metric tons) in 2001 to an estimated \$800 million (39 metric tons) in 2006 (Figure 1.2). The contribution of the mineral sector to GDP grew from 1.7% in 1999 to 3.5% in 2005 (URT, 2006). This impressive performance of the sector is the inspiration for this study, which seeks to explore the impact of the achievement in mining on the national economy and the livelihood in the local communities around mining projects as well as poverty reduction.

Table 1.3 Liberalised economy: Mineral exports 1999-2007 (\$ million)

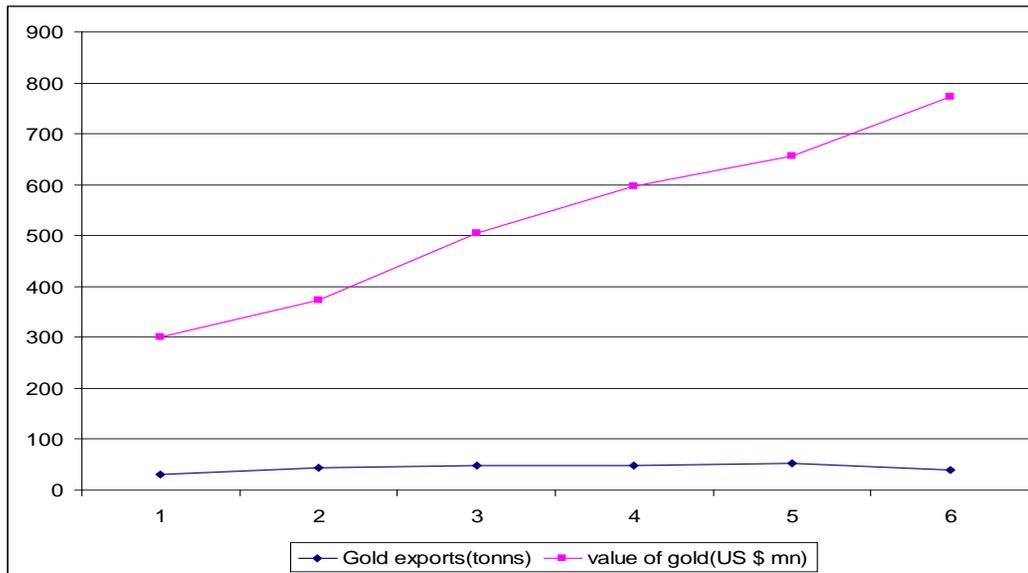
Year	Foreign exchange earnings (export)	Mineral export	Gold export	% mineral contribution to foreign exchange	% gold contribution to mineral export
1999	543.30	85.60	40	16	46.50
2000	663.20	181.90	121	27	66.25
2001	776.40	302.20	257	39	84.98
2002	902.50	383.80	341	43	88.87
2003	1,129.20	552.20	499	49	90.37
2004	1,473.10	686.50	629	47	91.62
2005	1,676.30	711.30	656	42	92.16
2006	1,743.00	836.90	786	48	93.97
2007	2,021.00	886.50	763	54	86.06

Source: Tanzania Economic Surveys, 1999-2007.

Socio-economic issues

Between 2000 and 2008, the economy grew faster than the population, from 4.0% to around 7.0% GDP real growth rate while Per capita GDP increased from \$550 to \$1,100. The inflation rate has remained in single digits, gradually falling from 8.8% in 2000 to 7.0% in 2008 (Table 1.4).

Figure 1.2 Trends of gold exports (in tons) and value 2001-2006 (\$ million)

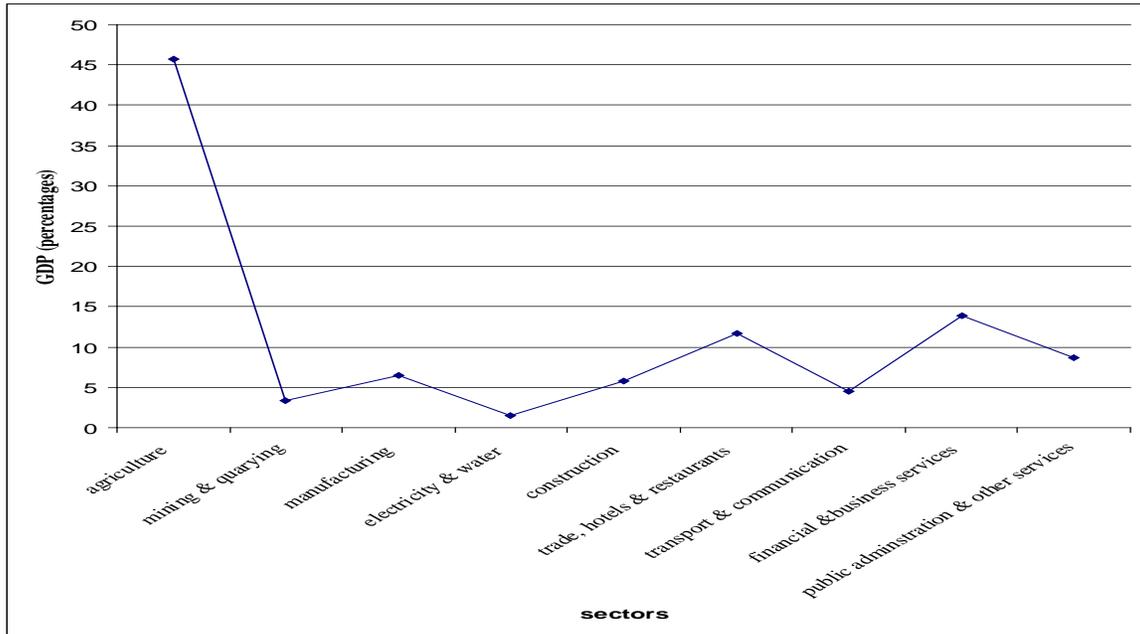


Note: Numbers 1, 2,3,4,5 & 6 on x-axis represent years 2001, 2002, 2003, 2004, 2005 & 2006 respectively.

Tanzania's economy is heavily dependent on agriculture, which accounts for about 66% of merchandise export and is a significant portion of GDP (over 45% in 2008) (Figure 1.3). At the same time, it employs between 75% to 80% of the rural population; they cultivate the land by hand using crude tools (Mbelle, 2007). However, the impressive growth of the economy is not enough to reduce poverty. It is marred by high levels of poverty at household level, both in urban and rural areas (Maliti & Mnenwa, 2008). Nearly 40% of the population fall below the poverty line for basic needs and 19% fall below poverty line for food (NBS, 2002). Ninety percent of citizens live with under \$2 per day (NBS, 2002). In 2008, life expectancy at birth was a modest 51.4 years and the HIV prevalence rate stood at 8.8% (Table 1.4). As economic growth is central to poverty reduction and social development, it is essential to understand how FDI in the gold

mining the sector (which accounts for a large portion of export and GDP) contributes to poverty reduction at grass root level.

Figure 1.3 Sectoral contribution to overall GDP at factor cost (2010 prices)



Source: URT (2007). Economic Survey 2006, Ministry of Planning, Economy and Empowerment. Dar es Salaam, Tanzania.

Demographic characteristics

Estimated at 35.3 million in 2000, Tanzania’s population was projected to rise to 40.2 million by year 2008 (Table 1.4). Population density had increased from 26 people per square kilometre in 1990 to 39 people per square kilometre in 2008, a 50% increase. The population distribution is influenced by a number of factors, such as access to social services, climate, availability of land and access to reliable economic activities.

Population growth rates have been consistently high in Tanzania for over 40 years, with greater fluctuation in the last decade. From 2.6% in 1967, they reached an all time high of 3.2 in 1978, gradually declining to their lowest 1.7% in 2003, and then starting along another upward trend reaching 2.1% in 2008 (Table 1.4). This population growth rate is

high compared to international average and Tanzania's population continues to grow in absolute numbers (Madulu *et al.*, 2007).

Table 1.4 Economic and demographic trends

	2000	2001	2002	2003	2004	2005	2006	2007	2008
Population (million)	35.3	36.2	37.8	35.9	36.6	36.8	37.4	39.3	40.2
Population growth rates (%)	2.57	2.61	2.6	1.73	1.95	1.83	1.83	2.09	2.07
GDP real growth rate (%)	4.0	5.2	5.0	5.2	5.2	5.8	6.8	5.8	6.9
GDP per capita (PPP) \$	550	710	610	630	600	700	700	800	1,100
Population living below poverty line (%)	51.1	51.1	51	36	36	36	36	36	36
Inflation rate (%)	8.8	6.0	5.0	4.8	4.4	5.4	4.3	5.9	7.0
Life expectancy at birth (years)	52.2	51.9	51.7	44.5	44.3	45.2	45.6	50.7	51.4

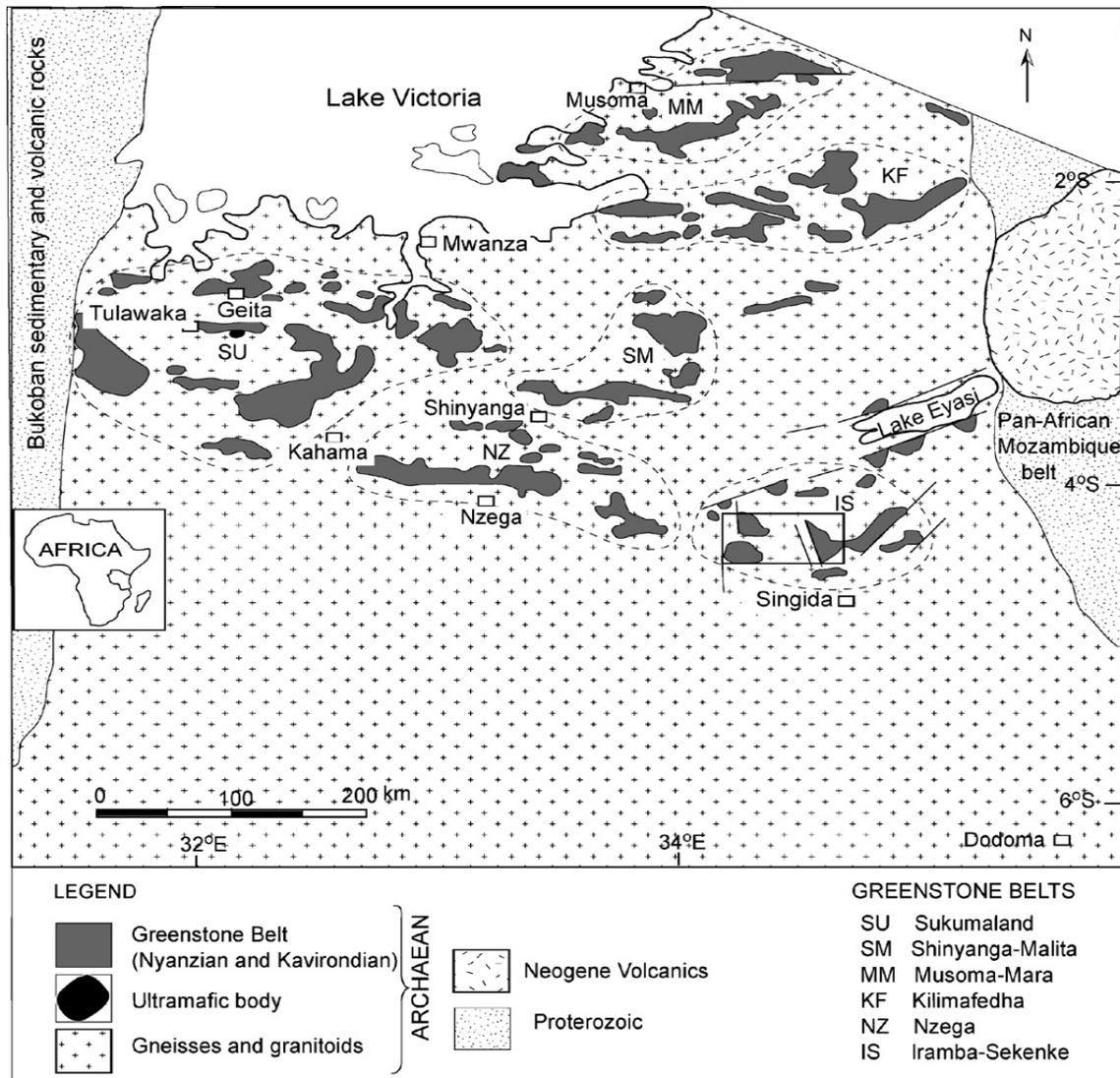
Sources: NBS (2002); BOT (2007); Madulu *et al.*, 2007.

Lake Victoria Greenstone Belt and selection of the area

The Lake Victoria Greenstone Belt forms a granite-greenstone terrain of the Tanzania craton (Barth, 1990; Borg *et al.*, 1990). It stretches from the north-west to the central part of the country. The belt comprises six greenstone belts of the *Archean* type known for their high potential for gold in Australia, Canada and South Africa (Borg *et al.*, 1990). These are the Shinyanga-Malita (SM), Kilimafedha (KF), Musoma-Mara (MM), Nzega (NZ), Iramba-Senkenke (IS) and Sukumaland (SU) greenstone belts (Manya & Maboko, 2008; Map 1.1).

This thesis will focus on the SU Greenstone Belt which consists of an inner arc and outer arc of volcanic origin (Davidson, 2001). The two arcs are bound and intruded by granites. The inner arc is made up of a mixture of mafic and felsic volcanic rocks, hosting rich gold deposits they are the sites of the Bulyanhulu and Tulawaka mines respectively. The banded iron formation and sediments dominate the inner arc and hosts deposit for the Geita and Golden ridge mines (Ibid.).

Map 1.1 Geological map of Lake Victoria Greenstone Belt (adapted from Borg & Shackleton [1997])



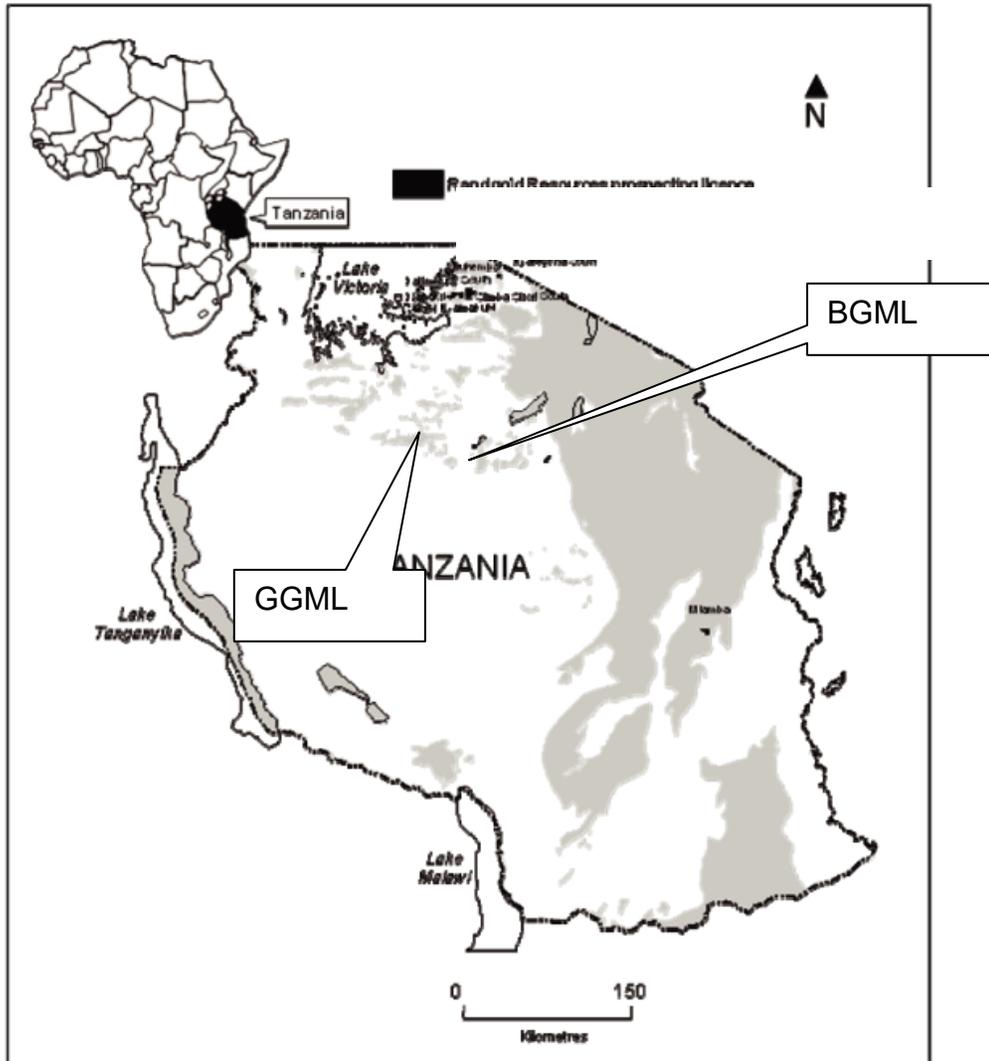
SU Greenstone Belt is the subject to this thesis because it hosts the Bulyanhulu Gold Mine Limited (BGML) and Geita Gold Mine Limited (GGML). The name Sukumaland Greenstone Belt comes from the Sukuma ethnic group which resides in this area (Borg *et al.*, 1990). The SU Greenstone Belt is situated to the south of Lake Victoria between Mwanza and Kahama. Its high gold mining potential has attracted extensive research, prospecting and exploration work in the area (Borg & Shackleton, 1997; Manya & Maboko, 2003; Messo, 2004; Mtoro 2007). This was followed by the opening of large-

scale mining activities and several gold rushes by small-scale miners. The influx of mining activities has significantly altered living conditions through changes in land use regimes, displacement of communities and population surges. This thesis will seek to explore these changes in living conditions in the wake of increasing mining activities in SU Greenstone Belt. BGML and GGML are chosen because they pioneered large-scale mining in the late 1990s: and there is extensive experience, initiatives, and impact that have accumulated between 1999 and 2007 and can be now explored.

Bulyanhulu Gold Mines Limited (BGML)

The Bulyanhulu Area of Kahama District (western part of central Tanzania) is located 153 kilometres from Mwanza and about 56 kilometres from the southernmost point of Lake Victoria (Map 1.2). It is the home of Bulyanhulu Gold Mine Limited. Established in 2001, it is Tanzania's largest underground gold mine fully owned by Barrick Gold Corporation of Toronto Canada (van Campenhout, 2002). Valued at \$280 million during construction, it is insured by the World Bank Private Sector Insurance, the Multilateral Investment Guarantee Agency (MIGA) and the Canadian Government's Export Development Corporation (EDC): they issued about \$345 million in political risks guarantees to commercial banks and operators of the mine (Lissu, 2001). According to Kabelwa (2003). Barrick's investment in the mine is estimated at \$610 million. The majority of its 1,913 employees are Tanzanian (1,710 or 89%). It has gold reserves of 13.2 million ounces with annual production capacity of 300,000 ounces of gold, in addition to other minerals like silver and copper (URT, 2008). Its lifespan is estimated at 30 years.

Map 1.2 Locations of Geita (GGML) and Bulyanhulu (BGML)



Geita Gold Mines Limited (GGML)

Geita is situated in north-western Tanzania, 25 kilometres from the southern shore of Lake Victoria (Map 1.2). Mining in Geita began many years ago; the previous major operation was the Geita Underground Mine, which operated between the 1930s and 1960s (Stephen & Kamugisha, 2004; Joukoff *et al.*, 2004). It is the site of Geita Gold Mine Limited (GGML), an open pit large-scale mine established in 1999 and owned by Anglo-Gold Ashanti Limited (AGAL). AGAL is the result of the merger between Anglo-Gold Limited (50%) of South Africa and Ashanti Goldfields Company Limited (50%) of

the United Kingdom (van Campenhout, 2002). GGML's gold resources are estimated at 16.95 million ounces, with projected annual output of 560,000 ounces. The AGAL investment was estimated at \$450 million in 2004. The mine employs 2,296 people; the vast majority (2,222 or 97%) are Tanzanian (URT, 2008). The mine has an estimated lifespan of 15 to 20 years (Yager, 2004).

Structure of thesis

This thesis is organised into eight chapters. Chapter 1 presented the background of the topic and the evolution of economic policy in Tanzania and its effect on FDI. It has also accounted for the historical trend of FDI during the pre-independence, post-independence and economic liberalisation periods. Chapter 2 will present the theoretical overview and analysis of data related to FDI, poverty, Corporate Social Responsibility (CSR) and the change in living conditions in Tanzania, specifically looking at the mining neighbourhoods around BGML and GGML. Chapter 3 will provide details regarding the research design and methods used in the fieldwork; it will present the practical issues and challenges encountered during site selection, sampling, data collection, analysis and presentations. Chapter 4 will provide insight in the legislative framework that governs Tanzania's mining sector. It will analyse the Mining Code in relation to FDI performance. The Mining Acts, mineral policy, Land Acts and tax regimes will also be covered in this chapter. Chapters 5 and 6 will discuss the socio-economic impacts of mining investment on local communities near the mining sites under scrutiny. It will also provide details on health and environmental impacts. Chapter 7 will describe the CSR policies of the BGML and GGML mining companies, further to also examine their initiatives and delivery approaches as well as the challenges they encountered in meeting CSR goals. Chapter 8 will provide the concluding remarks of this thesis as well as lessons, research suggestions and policy recommendations.