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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Citation for published version (APA):

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FDI, poverty, corporate social responsibility and changing livelihoods

Foreign direct investment (FDI)
According to Eatwel et al. (1987), FDI is defined as acquisition of assets outside one’s home country, usually by securing ownership over the means of production, for example, factories or equity shares (particularly if they provide ownership or control over the firm and/or its resources). It includes equity purchases, reinvestment earnings and intracompany loans and debt transactions (Madete, 2000). The country where the FDI originates is known as ‘home’ country; inward FDI accrues to the recipient or ‘host’ country.

Studies revealed that outward FDI enhances the economic performance of home countries through increased market access, income generation and increased competitiveness (UNCTAD, 1995; Kumar, 1995). Increased market access is achieved by removing host county tariff and non-tariff barriers (thus preventing rivals and potential rivals from taking over these markets); by obtaining host country guarantees that forbid other companies to produce or import similar products; and by enabling successful and efficient provision of goods and services that require close proximity between suppliers and customers. Income for home countries is generated through the repatriation of incomes earned by the factors of production transferred to the host country (profit,
dividends and interests). Other sources include royalties and licensing fees for the technology and know-how transferred to those countries. Increased competitiveness is achieved from the combination of number of factors: relocating production closer to cheaper resource bases (providing lower wages and proximity to raw materials); freeing domestic factors of production for other uses; circumventing distortions introduced by exporting agencies to host countries; and strengthening innovative capacity by maintaining intensive research and development efforts to keep up with changes in technology (UNCTAD, 1995; Kumar, 1995). Theoretically, FDI is an economic activity that belongs to the trade section of balance of payments accounts.

**The concept of poverty**

Poverty is a multidimensional and multifaceted concept (Mitlin, 2003; Van Vuuren, 2003). It is characterised by eight main types of deprivations: inadequate and unstable incomes; inadequate, unstable or risky asset bases (such as lack of education and housing); inadequate provision of public infrastructure (running water, sanitations, drainage, roads and sidewalks); inadequate provision of basic services; limited safety-nets for those unable to pay for services; inadequate protection of vulnerable groups through laws and rights; and powerlessness of vulnerable groups within political and bureaucratic systems (Baud et al., 2007).

Looking at these multiple deprivations it is apparent that poverty is not only defined by limited income. It is a manifestation of collective ‘structures of constraint’, which make it difficult for poor households to meet their needs and gain access to collective provisions of services (Baud et al., 2007). There is a cause and effect relationship that deepens poverty for individual households: deprivation in one area hinders households from meeting their needs in the other areas (Baud et al., 2007; Sen, 1999). For instance, deficiencies in housing, drinking water and sanitations can lead to poor health. This in turn prevents the afflicted from working effectively and reduces their ability to earn income (Baud et al., 2007).
Hence, poverty is both a ‘state’ of being and a ‘process’ that narrows the individual’s choices and well-being (Owuor, 2006). In the classic debate, poverty is defined as unidimensional—i.e. poverty of income (Pradham & Ravallion, 1998). From income point of view, one may refer to poverty as either ‘absolute poverty’ or ‘relative poverty’. Absolute poverty is based on estimated costs for satisfying minimal expenses for basic food and other necessities needed to sustain human life. According to the World Bank (2000) this minimum is estimated at $1 per day in 1993 purchasing power parity. Relative poverty refers to minimum level of consumption as proportion of total or average consumption (Owuor, 2006; Rakodi, 2002a). Households or individuals are considered poor when the resources they command do not enable them to consume sufficient goods and services to achieve reasonable minimum level of welfare (Rakodi, 2002a). Therefore, poverty is associated with situations where a person is deprived of certain basic needs, such as economic state in which lack of income or consumption prevails. This so-called welfare approach depicts poverty in terms of income vs. expenditures and nutrition/consumption deficiencies.

Other forms of poverty are chronic and transient poverty (OECD, 2001). Chronic poverty refers to those who are permanently incapacitated—usually due to physical or mental disability, long-term illness and/or old age—and thus cannot work or earn income. They remain poor for much of their lives and likely will bring up their children in poverty (CPRC, 2004). On the other hand, transient poverty refers to those people who experience poverty for a limited time during which they are unable to provide for themselves, because they lost their job or are facing seasonal food shortages.

The literature deals with other forms of poverty in addition to income poverty: poverty of access and poverty of power. Poverty of access refers to the inability of the poor to access basic infrastructure and services, for example, communities in rural areas with unsanitary and insecure neighbourhoods lack basic necessities: adequate health facilities, safe drinking water, housing etc. At the same time, the poor also lack tenure security, their personal safety is endangered, and they are vulnerable to disease, and natural and man-made disasters. They have limited or no certainty that they can maintain their level of
consumption if their income is reduced (Mitlin, 2003). Poverty of power refers to the poor not having the ability to influence decisions in their settings and the abuse of their human and citizen rights. Because they are voiceless and powerless within their political systems and bureaucratic structures, their opportunities to access the entitled benefits are reduced (Odhiambo & Manda, 2003).

The concept of poverty has been widening; today it includes additional aspects, such as deprivation, vulnerability, entitlements and exclusion. These concepts have been instrumental for analysing what makes one fall into poverty or why one remains poor. They have influenced the understanding and measurement of poverty as well as poverty alleviation policies. Poverty is associated with various deprivations that introduce insecurity in one’s living and social environment. Deprivation occurs when it is no longer possible to reach a certain level of functioning or capability; therefore, defining a household as poor in terms of consumption may not cover all deprived households and individuals (Rakodi, 2002a). Deprivation has physical, social, economic, political and psychological dimensions (Van Vuuren, 2003).

The widely accepted definition of vulnerability identifies it as increased insecurity of well-being for individuals, households or communities in the face of changing conditions in their environment (van der Geest & Dietz, 2004). Vulnerability is closely related to access and control of resources or assets (described in the livelihood analytical framework). The more asset people have, the less vulnerable they are. It is linked also with survival (Frayne, 2004). Therefore, poverty is not only characterised as lack of assets and inability to accumulate a portfolio of assets, but rather lack of choice with respect to coping strategies. Poverty also implies susceptibility to crises, stress and shocks without the capacity to recover. In some cases the poor are forced to adopt strategies that enable them to survive but do not improve their welfare (Rakodi, 2002a).

Entitlement refers to the complex ways in which individuals or households command resources; they vary between people and through time and are used to respond to shocks and stresses. Availability of resources or means of subsistence does not automatically
entitle an individual or household to use them. Entitlement must be enforced and an individual’s or household’s capacity to do so determines their control over resources or means of subsistence. Therefore, poverty can be defined as failure to exercise certain capacities that are important for the individual’s or household’s well-being. These failures can be dependent on social, cultural, political or environmental conditions and are location specific.

Exclusion is a state of ill-being and disablement or disempowerment and inability that individuals or groups experience. It is the lack of access to social security, employment, personal security, human rights and decent living (De Haan, 2000). Not all members of society have equal access to social security and other safety nets—in particular the poor tend to be excluded (Kaag et al., 2004). Exclusion from social, political and economic institutions is part of a vicious circle in which exclusion limits the power to act, which in turn reduces the prospects for escaping from poverty and the ability to assert one’s rights. Social inclusion is necessary for securing sustainable livelihood (De Haan, 2000).

**Corporate social responsibility (CSR)**

*Defining CSR*

In developing countries FDI can potentially make an important contribution to the development of local economies (Ite, 2004). By investing in resource-rich countries, multinational mining companies (MNCs) can bring positive impact, especially through CSR initiatives that focus on sustainable development together with civil society organisations and the local communities. However, experience indicated that CSR is more often an outcome of public pressure arising from MNC’s violations of human rights, environmental pollution and labour infractions (Reynard & Forstater, 2002). Jenkins (2004) had noted that CSR is the response to widespread and increasing criticism of the mining industry, calling it to pay serious attention to its environmental and social impacts.
CSR is a helpful conceptual framework for exploring the companies’ corporate attitude towards stakeholders (Wheeler et al., 2002), i.e. how to strike a balance between the need to make a profit and diverse community demands as well as the imperative to protect the environment. In this discussion, they recognise newly empowered stakeholders (e.g., local communities), identify their interest, concerns and objectives as well as recognise the need to balance or accommodate these different interests (Guerra, 2002). CSR is a means for enabling companies to set their attitudes and strategies towards and relationships with stakeholders—be it investors, employers or communities—within a popular and acceptable concept. For example, CSR may include advancing cleaner production technologies and establishing foundations and trusts to provide social services to communities affected by mining operations, with mining profits providing the necessary funding for these activities.

CSR strategies to improve social impacts of multinational mining companies are also expected to positively affect profit margins, at least in the medium- to long-term (Holiday et al., 2002). Therefore, the International Council of Minerals and Metals (ICMM) has taken direct steps to secure commitments from its members to support sustainable development as a tool for enhancing shareholder profit. The quest for win-win solution—achieving both the objectives of companies and the other stakeholders—is epitomised in the concept of partnership.

According to Fox (2004), CSR is an ambiguous phenomenon within the international development field. Some see it as a vehicle through which the private sector can contribute to poverty reduction and other social objectives; something that cannot be achieved by government alone. The concept has attracted criticism for being insensitive to local priorities and potentially harmful to prospects for sustainable livelihoods. Civil society organisations view CSR as a voluntary activity. Also the European Commission (2002) described the concept as voluntary integration of social and environmental concerns in MNCs’ business operations and their interaction with stakeholders. Others assert that CSR is often embedded within legal and regulatory environments, particularly when minimum standards are prescribed as good practice. Therefore, CSR is the
enterprise’s overall contribution (both positive and negative) to sustainable development as reflected by the World Bank’s (2001) working definition:

    CSR is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families, as well as of the local community and society at large...

*Enabling environment for CSR*

Fox (2004) observed that the CSR agenda is overwhelmingly shaped by actors from the north (often FDI home countries). It emerged in the globalisation discussion of 1990s, fuelled by reports of environmental, labour and human rights abuses within operation and supply chains of large, high profile MNCs, usually based in the north but often operating in or sourcing from the south. The CSR agenda is entirely focused on large enterprises and is driven by NGOs, investors and regulatory authorities (Fox, 2004). The practice does not look at small- and medium-sized enterprises (SMEs), either as suppliers to large companies or beneficiaries of CSR initiatives. The literature suggests that there are three pillars necessary for providing a good enabling environment for CSR practices: the drivers for responsible business operations; the human and institutional capacities necessary to generate and respond to the drivers; and the tools of CSR (RING, 2003; Fox, 2004).

Carroll (1991) structured the different social responsibilities into a four strata pyramid model (with economic, legal, ethical and philanthropic responsibilities) commonly known as ‘Carroll’s pyramid of CSR responsibilities’. The pyramid is set in a way that one kind of responsibility cannot be achieved in absence those bellow it in the pyramid, thus emphasising the role of all stakeholders and corporations (Carroll, 2004). Economic responsibilities means doing what is required by global capitalism; legal responsibilities refer to the legal requirements that the corporation has to fulfil before global stakeholders; ethical responsibilities imply that the corporation follows what is broadly expected by global stakeholders as ethical behaviour; and finally philanthropic responsibilities means to ‘do what is desired by global stakeholders’ (author’s original
emphasis) (Visser, 2005). According to Carroll (1991), the emphasis falls first on economic and legal responsibilities, followed by ethical and philanthropic responsibilities: ‘Economic performance undergirds all other responsibilities although the components are not mutually exclusive; it helps the manager to see different types of responsibilities are in constant tension with one another’.

Empirical studies suggest that culture plays a key role in shaping perceptions of CSR responsibilities. Therefore, the ranking of priorities may differ from Carroll’s framework, depending on geographic locations (Burton et al., 2000; Edmonton et al., 1999). Visser (2005) realised that CSR strata in the African pyramid are different from Carroll’s pyramid: the economic responsibilities are the foundation, followed by the philanthropic responsibilities and then by legal and ethical responsibilities respectively. According to Visser (2005), economic performance is given highest priority because Africa suffers from shortage of FDI and has only recently gained access to substantial FDI. Many African countries have high rates of unemployment, for example only 43% of the labour force is participating in the economy (ADB, 2004). Poverty is also widespread, an estimated 70% of the population lives on less than $1 and most countries are plagued by exorbitantly high external debt (ADB, 2004). Therefore the economic contribution of FDI to economic growth is essential, and, in most countries, both governments and communities highly appreciate this contribution of the business sector (Visser, 2005). Crane & Mattens (2004) suggested that the economic responsibilities in the USA are strongly focused on profitability and returns to stakeholders; this also holds true for Africa.

Philanthropic responsibilities are the second priority for CSR in Africa (Visser, 2005), for three main reasons. First, socio-economic needs in African societies are so large that philanthropy is a broad cultural norm. Second, it is considered the right thing to do by businesses. Companies realise that they cannot succeed in societies that are faltering and philanthropy is seen as the most direct way of helping the communities in which businesses operate. The third reason is the foreign aid dependency syndrome of most African countries. For example, in 2002 sub-Saharan Africa received around $19 billion
in official development assistance (ODA), equal to $28 per capita or more than double the average of $11 for the rest of the world (ADB, 2004). An ingrained culture of philanthropy persists in Africa. There are various activities that corporations can do as philanthropic gesture (Genest, 2005). These are donations to charity institutions and working with non-profit institutions. Other activities include supporting educational programmes, medical interventions and development of infrastructures, such as roads, bridges and alternative energy sources (beyond the immediate needs of their direct stakeholders, i.e. labourers).

Legal responsibility in Africa scored a lower priority compared to the developed world. This is due to poor legal infrastructure and absence of independence, resources and administrative efficiency. Also, many African countries lag behind in incorporating human rights and other social issues into their legislation (Mwaura, 2004). The weak influence of the law is clearly seen in widespread unethical practices, such as fraud and corruptions (Visser, 2005). Ethical responsibilities have the least influence on CSR in Africa, attributed to low level of corporate governance, widespread corruption and lack of transparency in reporting revenues. There are two main CSR tools: the Global Compact and Global Reporting Initiatives (GRI).

_The Global Compact_

The Global Compact is a partnership between the United Nations, business, the International Labour Organization (ILO) and major civil society organisations. Contrary to popular opinion, it is not a code of conduct; instead, it seeks to engage companies in the promotion of certain UN principles within the corporate domain (Ruggie, 2002). The principles themselves are drawn from the Universal Declaration of Human Rights, ILO’s Declaration on Fundamental Principles and Rights at Work, and the Rio Declaration on Environment and Development. Companies are encouraged to move towards ‘good practices’, as defined through multi-stakeholder dialogue and partnerships, instead of using their often superior bargaining position vis-à-vis national authorities (especially in
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small or poor states) to secure more beneficial arrangements for themselves (Ruggie, 2002).

The Compact employs three instruments to achieve its aims. The first is the ‘learning forum’. It is designed to generate consensus based on the understanding of how the company’s commitment to the nine principles can be translated most effectively into corporate management practices. The idea is for the UN to publicise these norms, thereby providing a standard and putting pressure on industry laggards that are slow to comply.

The second instrument is ‘policy dialogues’: the compact generates shared understandings of the corporation’s social responsibility when operating in countries afflicted by conflicts. This particular dialogue has explored how companies can conduct impact assessment and reduce the risks that they contribute to fuelling such conflicts, achieve greater transparency in their financial transactions with the parties in conflict, and devise revenue sharing regimes that benefits local populations. These dialogues play a normative role in the broader public arena, and they directly inform the UN’s own conflict prevention and peacemaking activities.

The third instrument is implementing ‘partnership projects’ in developing countries. The Compact contributes to capacity building through micro-lending, investment promotions, HIV/AIDS awareness programs for employees in sub-Saharan Africa, sustainable alternatives to child labour as well as various eco-efficiency actions and other dimension of environmental management.

*Global Reporting Initiative*

The Global Reporting Initiative (GRI), established in 1997 and funded by the Coalition for Environmentally Responsible Economies (CERES), seeks to create measurable indicators for sustainability, in the same way that one can measure financial performance. The belief is that a system of measurable indicators will force companies to issue regular sustainability reports, as a tool to maintain the trust of their customers and society at
large. GRI was successful in recruiting a wide variety of firms, and in 1998 GRI expanded from mainly dealing with environmental factors to working with economic (non-financial) and social sustainability indicators. As it develops, in order to remain current and relevant, GRI is continually being redefined (Willis, 2003).

**CSR and poverty alleviation strategies**

Corporations tend to use three main types of poverty alleviation strategies. The first strategy is the ‘profit’ strategy. This strategy enables the company to explore the untapped market of low-income consumers by creating affordable goods and services with the expectation to realise profits by selling to these new low-income consumers (London & Hart, 2004). Using their resources and capabilities as a base, companies develop innovative products and/or services to match the needs of low-income consumers. The poor then will bring the wealth back to the company. For example, Hindustan Lever Limited (HLL), an Indian subsidiary of Unilever, has been extremely successful with this strategy in reaching out to the lowest level of the consumer pyramid (Ellison, Moller, & Rodriguez, 2002). HLL was not afraid to experiment with new types of distribution, using different partners to distribute its product, and also to support their efforts to acquire additional capacities (Balu, 2001). The company has been able to generate over $1 billion in revenues by serving this low-income market in India alone (Ellison, Moller & Rodriguez, 2002).

The second strategy is a CSR strategy. This is where the company has a social mission. This strategy uses the problems and challenges faced by low income consumers as a starting point. The problems are critically analysed and solved with both parties reaping the benefits. The starting point of this strategy is the poor. The poor offer challenges and opportunities; subsequently social strategy is created to solve these problems. The products and services will bring wealth to the low income consumer and then transfers back to the company that supplies it. The difference with the previous strategy is that problems and challenges for low income consumers are solved while both can benefit from the relationship. These types of company combine the passion of a social mission with an image of business-like discipline, determination and innovation (Clayton et al.,
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2006). The central criterion for success of CSR is the company’s mission-related impact, not simply pure profit (Dees et al., 2001a). By working with low-income consumers as partners in problem solving, the company can focus on and tackle the problems’ root causes, not just the symptoms. Understanding the dynamics of poverty is necessary for devising effective poverty alleviation strategies. Although an increasing number of studies have explored economic opportunities for the poor, there is scant information on CSR strategies in Tanzania’s mining sector. Chapter 7 will explore and analyse the CSR practices of mining companies in more detail.

**Theoretical links between FDI and poverty**

Gold mining as a subsector of mining can be linked theoretically to poverty alleviation by identifying its contribution to the development of local economies (various opportunities: supply and distribution chains, trading, and outsourcing (Blomström & Kokko, 1997, 1998; Markusen et al., 1997; Kabelwa, 2006). The resulting income and employment opportunities may help reduce poverty levels, particularly income poverty of local communities. The extremely poor who participate in these activities can directly reduce their poverty. In addition, the poor can reduce their non-income poverty if the earnings from gold mining activities are used to support health and education services, thus improving their well-being and capacities.

Also, gold mining provides an important opportunity for diversifying local economies. It can develop in poor and marginal areas, which have limited export and diversification opportunities. Remote areas are particularly attractive for business activities because of their cultural, wildlife and landscape values. In addition, poverty may be reduced as gold mining creates new employment opportunities and income generating activities. Sometimes the earnings from mining activities are used to build new infrastructure and social service facilities or to improve existing facilities, which improves the social well-being and enhances the capacities of the poor.

Compared to other non-agricultural activities, gold mining offers a plethora of labour intensive and small-scale opportunities, employing a large proportion of the local
population. Thus, gold mining offers opportunities, in terms of employment creation and income generation, and can address the needs of vulnerable groups (e.g., women and rural poor communities). However, there are also potentially negative economic effects from gold mining. These include large-scale transfer of revenue out of host country and exclusion of local businesses, inhabitants and products. The result is loss of income for the displaced (Kabelwa, 2006; Luvanga & Shitundu, 2003).

Generally, it is possible that the poor gain little direct economic benefit from FDI (gold mining) while bearing many of the costs and hence fail to experience reduction of their poverty. Previous FDI development plans tended to ignore the potential negative impact. In the FDI planning process in most South East Asian countries in the 1970s and the 1980s, it was assumed that any economic gains to local communities would more than compensate any losses inflicted by FDI. Little attention was given to the impact that the diversion of natural resources for FDI would have on local communities or the environment (while the benefits accrue outside of that environment) (Shah & Gupta, 2000). Currently, most FDI plans include Environmental Impact Assessments (EIAs) to avoid or minimise adverse impacts on the environment. The underlying idea is to mitigate costs while maximising the economic benefits to the poor and the community as a whole.

It is theoretically possible to reduce poverty by engaging in FDI activities. However, due to processes of globalisation, modernisation and information technology diffusion the poor may not automatically reduce their poverty through foreign investment activities (gold mining). Comprehensive Impacts Assessments are generally neither well developed nor methodologically sound. It is also worth noting that gold mining is a complex industry driven by the private sector and often by multinational companies. These actors may have little or no interest in ensuring that poverty is alleviated among the local population. There are also leakages: importing skilled labour and luxury products, repatriation of profits by multinational companies, and largely using marketing, transport and other services based in home country. From a poverty alleviation perspective, it is crucial to determine how much profit is retained in host country and whether it is spent on goods and services for poor communities.
This leads to the following research questions to be considered in this thesis:

(a). What is the contribution of the gold mining sector in Tanzania?
(b). What are the effects of gold mining on livelihoods in LVGB?
(c). What are the links between gold mining and local economic development?