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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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Summary

This thesis seeks to quantify the economic, social and environmental effects of the gold mining sector as a component of FDI in Tanzania and its contribution to poverty alleviation. In addition to highlighting the socio-economic gains and losses, the thesis also traces the private-public partnerships with local communities around the mines (BGML in Kahama District and GGML in Geita District, north-western Tanzania) by exploring the corporate CSR policies and practices (which seek to alleviate poverty in neighbouring communities). However, recently the literature has criticised the way that Tanzania—and also other African countries—are using the gains from the mining sector to address poverty. This thesis does not challenge these findings but rather seeks to shed more light on the contribution of the mining sector to Tanzania's economy. The economic growth associated with the mining boom, albeit limited, is significant within the rural communities around the mines.

The thesis is organised into eight chapters. Chapter 1—The setting—describes the setting, introduces the case of Tanzania and the motivation behind the research. It provides a review of the evolution of FDI economic policy during pre-independence, post-independence socialist and economic liberalization era. The chapter first presents the socio-economic, geographic and demographic attributes of Tanzania. It identifies and describes the research sites in the Lake Victoria Greenstone Belt (LVGB), providing the reason for their selection. Chapter 2—FDI, poverty, corporate social responsibility and changing livelihoods—discusses the theoretical aspects of FDI, poverty and CSR in relation to poverty alleviation. It also gives a short historical overview of the Sukuma people and the mining neighbourhoods (specifically GGML and BGML) by dissecting social and political organisation during the pre-independence, post-independence and economic liberalisation eras. The chapter also discusses the socio-demographic descriptions of the mining communities in the wake of large-scale mining development and changing livelihoods. Chapter 3—Research methodology—describes the livelihood

analytical framework, the research design and its operationalisation. It puts into perspective the concept of the household as unit of analysis, the sampling process and the research questions as applied in this study. It has also outlines the data types and various data gathering methods, analyses and the field experiences.

Chapter 4—the Mining Code and FDI performance in Tanzania—examines and reviews present minerals-related legislation by dissecting its benefits and shortcomings in connection to the FDI boom in the mining sector. It presents FDI performance prior and after reforms as well as traces its distribution by sector and in the economy in general. Chapter 5—Socio-economic impacts of mining industries on local neighbourhoods—presents the social and economic costs and benefits from large-scale mining. It describes revenue generation, foreign exchange earnings and other social impacts. Chapter 6—Environmental and health impacts of mining operations on local neighbourhoods—analyses the environmental impact of mining activities and covers the degradation of the degradations, various forms of pollution and in particular the resulting health hazards to humans, animals, plants and the land.

Chapter 7—CSR in Tanzania’s mining industry—explores corporate policies and draws attention to the mining corporation’s attitude and dedication to CSR. This chapter maps the CSR approaches and practices that the mining companies use to alleviate poverty, to secure a favourable reputation and to promote sustainability in mining operations. It details CSR practices in Tanzania’s mining industry, putting them in the broader perspective of the policies of the mother company, with which they share the fundamental principles of safety, values, respect and accountability. These policies emphasise finding answers to the problems of local communities while, at the same time, also recognising regional and national development goals. Transparency, benchmarking, monitoring, reporting and sustainability became key policy commitments of all mining companies. CSR policies focus on developing areas of excellence, such as health and welfare, education, training and skills development, sustainable economic development, empowering women and developing rural infrastructure. CSR activities are implemented either single-handedly by the mining companies or through partnerships between the

mining companies and international and local NGOs. It is further made clear that mining companies have institutionalised the community development approach as a tool for realising its corporate commitments, policies, standards, guidelines, systems and processes. The companies established separate community development departments within their organisational structures, which design and implement sustainable economic projects according to the chosen thematic areas or areas of excellence for all communities directly or indirectly affected by mining activities. Between 1999 and 2005, the companies have spent a total of \$35.7 million on CSR projects.

Chapter 8—Conclusion and policy recommendations—asserts that, in order to be considered successful, a mining venture should help combat poverty through broad-based growth and sustainable development. It should not narrowly focus on securing return on investments but rather on maximising the impact of its activities through employment, skills development, and provision of education, health and social amenities as well as by cultivating mutually beneficial relationships with neighbouring communities. CSR requires commitment to social development principles that can help communities to better face adverse economic, social and environment conditions. CSR also increases effective engagement in poverty reduction efforts, in line with Tanzania’s Vision 2025 and the Tanzania Assistance Strategy for Growth and Reduction of Poverty.

The thesis concurs with the argument that the development of large-scale mining in Tanzania has made significant positive contributions in some aspects (increased production and revenue, access to technology and increased exports) while it has had limited impact in terms of growth (contribution to GDP through taxation and domestic earnings). Of course, the limited impact (both positive and negative) is partly caused by the fact that the industry is in its nascent stage. Therefore, attracting FDI is a major milestone in itself. Despite the success in attracting FDI, the current policy framework in Tanzania is not adequate for sound management of natural resources and the mitigation of negative externalities.

The thesis indicates a clear transformation of livelihoods in the mining neighbourhoods of LVGB. Despite the reported environmental and health concerns, the thesis noted clear improvement of the socio-economic status of their residents, compared to similar rural areas. The thesis also notes that, in order to ensure sustainable development, the government and mining companies are implementing interventions to mitigate the adverse effects of mining activities. Environmental management plans include proposals for prevention of pollution, waste treatment, protection and reclamation of land and water resources and for the elimination or mitigation of adverse environmental effects. Nevertheless, the thesis highlighted that environmental standards are not given the same (high) level of priority as the need for fair distribution of mineral revenues—not because they are not important but because the immediate needs for poverty reduction are seen as more pressing (environmental values are seen as longer-term impacts). It also reveals that mining companies have affected socio-economic development levels through their CSR corporate policies and interventions as well as through multiplier effects. Benefits accrue to various groups of traders and contractors who migrated to the mining neighbourhoods, after the development of large-scale mining in these rural areas.

The thesis concludes that the in general large-scale mining investments do have a positive effect on development, although the impact is limited in extent and to specific areas. Three aspects should be noted when analysing direct and indirect impacts of large-scale mining in Tanzania. First, the impact on mineral export and government revenue, employment, technology, skills and knowledge transfers is significant in relative terms, given that the industry started developing in the late 1990s from a very low base. Second, in spite of the massive share of revenues accruing to multinational corporations and the social cost of environmental degradation associated with mining operations, the developmental impact on local communities is notable, given the high needs for multiple socio-economic services and infrastructure. Third, the developmental impact of FDI in mining is limited because it does not provide substantial multiplier effects on the level of national economy (contrary to what is suggested in the 'trickle-down' theory).

These three impacts reflect the historical development of Tanzania's political economy and the dynamics of FDI and private property ownership in general. Between the late 1980s and mid-1990s, Tanzania adopted the liberal economic model, dismantling the government's prior policy of total control over the economy (established after the 1967 Arusha Declaration). These new liberal measures were meant to lure back investors (chased away by the socialist intervention) by offering them extremely lucrative incentives. Therefore, in order to subsidise investment and provide longer-term benefits, the government chose to forego some of the direct benefits it used to enjoy during the post-independence socialist phase. It was necessary to lower tax rates and/or introduce tax exemptions (among other incentives) to ensure that investments flow into Tanzania and investors are able to repay their loans and run profitable businesses. The lucrative incentives intended to restore trust and overcome the inertia of stagnant FDI flow in Tanzania by providing a favourable environment for foreign investors. This was successfully accomplished. As expected, the government accrued less tax revenues than the overall potential but increased production and exports during the first decade of enjoying strong FDI growth. This is a good sign for future revenue prospects and is strengthened by the fact that the state is expected to enjoy additional benefits from these investments, partly due to renegotiated contracts between government and the industry. However, the effects of mining on the country's economy as a whole will remain limited, because the mining sector is relatively small in size and inadequately linked to other parts of the economy.

Social and environmental concerns are equally important when analysing the sustainability of mining and mining policies of large-scale mining operations in Tanzania. There is growing prevalence of HIV/AIDS infection in communities surrounding the mines; however, HIV/AIDS is a broader problem that cuts across all sectors of Tanzanian society. Environmental concerns are related to soil erosion and degradation, air pollution, water pollution and noise pollution. Even though GGML and BGML have conducted their EIAs, to achieve sustainable development in the LVGB, much remains to be done to eliminate and/or reduce the cumulative adverse social and environmental effects.

Tanzania's mining policy and legal framework is popular with TNCs but not with local mining companies. With its new open-door policy, Tanzania has joined the group of countries that enjoy more favourable treatment by international insurance agencies. The fiscal regime is also overly pro-investor, without adequate provision for fair and equitable distribution of mineral exploitation gains between investors, government and local communities. More importantly, local investors in the sector feel largely neglected by the policy, as they claim to receive relatively few incentives. The incentive system consists of deliberate fiscal measures that do not aim to provide a level playing field but rather seek to accomplish specific macroeconomic goals.

The thesis concludes with four broad recommendations. First, it is recommended for the government and other stakeholders to review mining policy and laws, in order to provide fair and equitable distribution of mineral exploitation proceeds. Second, it recommends that value-adding activities in mineral processing should be directly promoted, which will secure enhanced benefits from Tanzania's mineral exports. Third, it is necessary to better link large-scale mining with the domestic economy. And fourth, strategic social and environmental impact assessments of large-scale mining on the LVGB need to be conducted, in order to determine the cumulative effects of mining. Last but not least, the thesis suggests that future research should be directed at assessing the relationship between profit, corporate income taxes and corporate social responsibility of foreign mining companies. It will provide a much needed additional comparative assessment to adequately determine role that FDI can play in poverty alleviation in Tanzania and other African countries.