

Local content in the Tanzanian mining sector



Photo: Siri Lange

Siri Lange,
Chr. Michelsen Institute (CMI)

Abel Kinyondo,
Research on Poverty Alleviation
(REPOA)

CMI CHR.
MICHELSEN
INSTITUTE

This brief examines the factors that have influenced local content in the Tanzanian mining sector, and some of the challenges and successes of local content initiatives in mining. Local content has gradually gained momentum over the last ten years, both among government bodies, companies, and civil society organizations. We argue that there has been a focus on quantity rather than quality in the reporting of local content, that there is a need for stronger regulation of local suppliers to make them adhere to ethical standards, but also that investment in training and local cooperatives can be beneficial for both corporations and host communities.

Historical background, legislation and policies

It has been argued that a tide of resource nationalism is presently taking place in Africa, spearheaded by South Africa, Mozambique and Tanzania. Resource nationalism is characterized by the tendency for states to take (or seek to take) an increasing control of the economic activities related to natural resources. It may take a variety of forms; from outright nationalization of resources to regulatory and fiscal measures in order to obtain greater benefits for the host state. One of the regulatory measures is to put in place local content policies. Local content policies and legislations typically require investors to purchase a certain percentage of goods and services within the host country, and to train and hire national staff. While the interest in local content is growing, there is no agreed definition of what the term “local” actually covers.

Historically, there has been limited external pressure on mining companies in Tanzania to increase local content. The 1998 Mining Act, which opened up for foreign investment in the sector, was the result of the World Bank’s five-year Mineral Sector Technical Assistance Project and had no clause on local content. During the first four years following the new legislation, four large scale gold mines were established. Due to a number of factors, including lower revenues than expected, large scale mining quickly became very controversial. In 2007 the Tanzanian state received 23 times more in official state-to-state development assistance (ODA) than it did from the total revenues from large scale mining. This was partly due to VAT and duty exemptions. For example, the Golden Pride Mine, which was in operation for 12 years (1991 to 2013), only paid corporate tax for its last three years of operation.

From the mid-2000s onwards, politicians, donors and NGOs have argued that the industry needs to contribute to wider economic effects in the country. The revised act of 2010 reintroduced the requirement for local content, but the act is not binding since local content is required only *if* the services are there and only *if* they are of good quality. The mining companies have nevertheless gradually made efforts to strengthen local content – both to improve relations with the government, for general branding purposes, and in a move to save costs after gold prices started declining in 2012. While few or none mining companies reported on local content initiatives in 2010, this had become mainstream in 2015, and in the case of Acacia (formerly Barrick) central to the company’s CSR reporting.

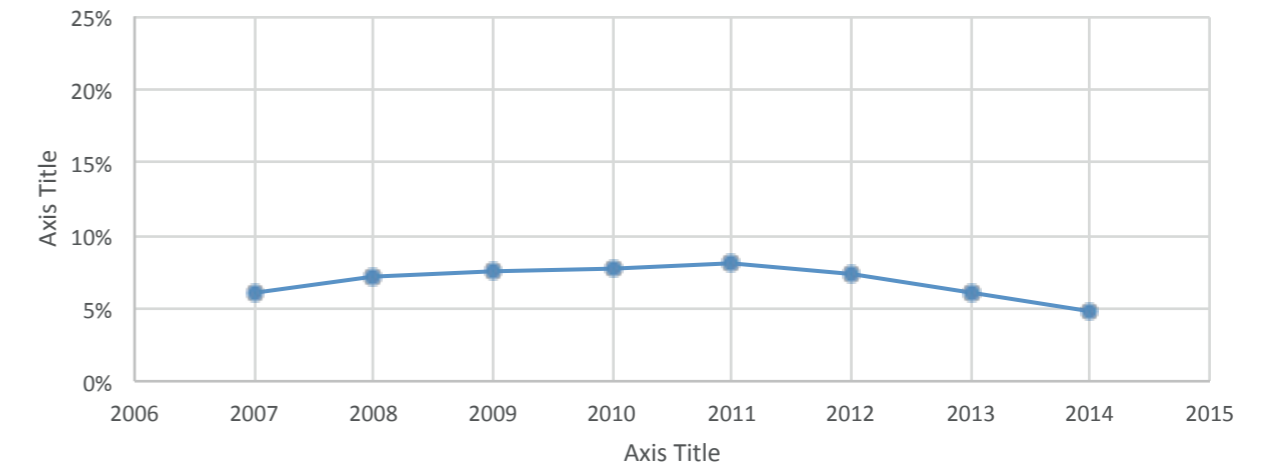
Direct employment

In terms of employment, the percentage of expats in international mining companies has been relatively stable since the early years, fluctuating between five and eight percent.

This demonstrates that there has been limited efforts to replace foreign experts with local expertise. The noticeable reduction in 2013 and 2014 appears to be related to the closure of two large scale mines; Tulawaka (2013) and Golden Pride (February 2014), and not changing policies. National staff argue that they face a glass ceiling in terms of promotions, and that because of this, many Tanzanians mining professionals opt for employment in West Africa.

As for lower level staff, mining companies have taken initiatives to provide training. The Integrated Mine Technical Training Programme (IMTT) at the Arusha Technical College (NECTA)

Expatriate employees in major mines 2006-2014

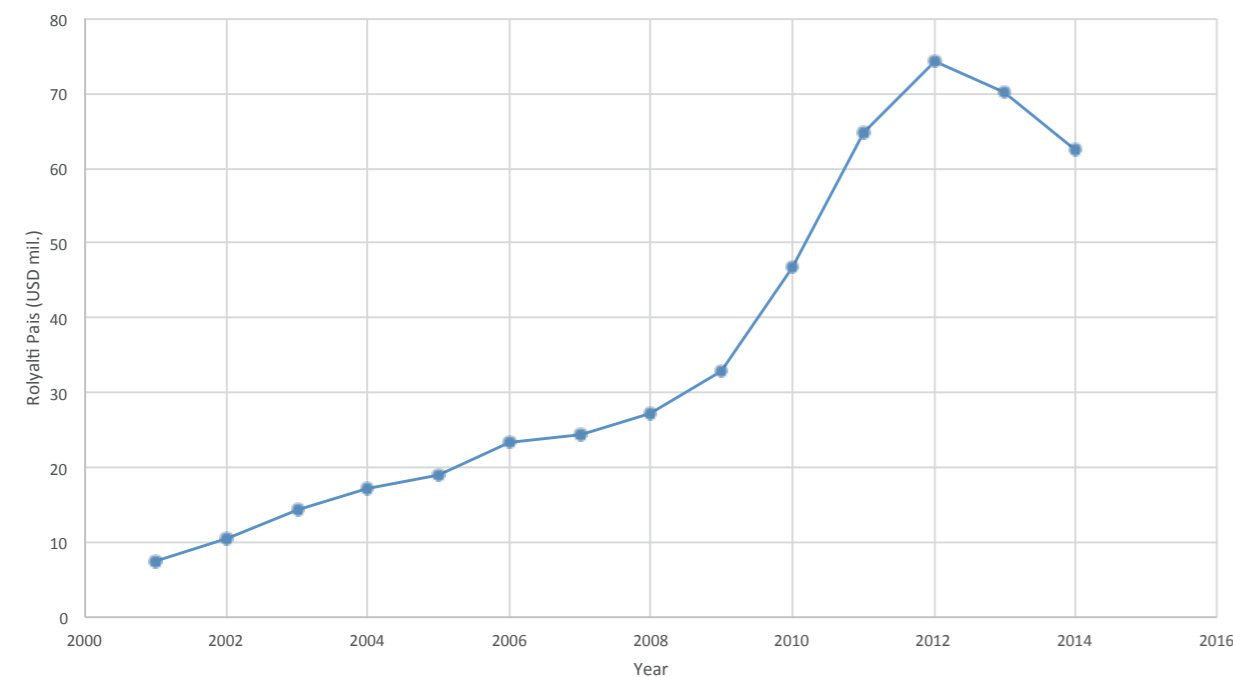


Based on figures in Tanzania Minerals Audit Agency’s Annual report 2014 (page 41).

and Moshi VETA College was established in 2009 in a joint effort by mining companies and government authorities. IMTT is an apprenticeship programme in which apprentices spend three months at the center and six months at the work place. So far, about 500 apprentices have graduated from IMTT program and 95% of them have found employment in mining companies or related industries. The initiative is a win-win for the companies since it contributes to a positive image at the same time as the industry gets better qualified staff and reduces the need for in-house training.

official and clear cut guidelines for what should count as local procurement. For example, if a large multinational plant for spare parts has a local dealership of suppliers, this is counted as local procurement. Similarly, the purchase of fuel from companies like BP and Orxy is counted as local content. This explains why, in the period 2001 – 2009, procurement by large scale mines was approximately equally divided between local and foreign, at the same time as some mining companies procured 98-100% of services like cleaning, security, capital goods, consumable goods, catering and consultancy from foreign suppliers.

Royalties paid (USD mil.)



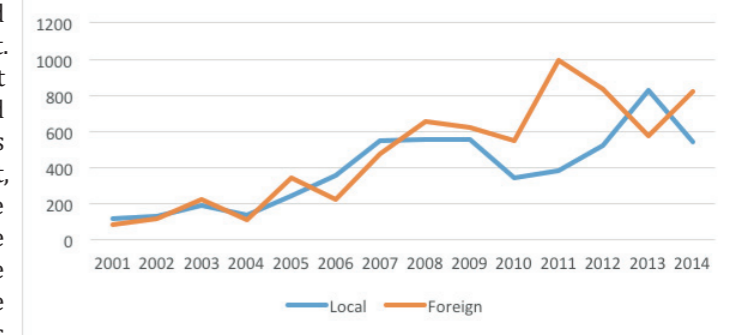
Based on figures from Tanzania Minerals Audit Agency’s Annual report 2014 (page 34).

Procurement of goods and services

Tanzania is one of the least industrialized countries in the world and this is one of the greatest challenges for local procurement. Mining companies have strict quality requirements when it comes procurement. This is first of all related to safety and quality of the operations, but also because some of the companies have signed international treaties regarding ethical conduct, like UN Global compact. Suppliers to the company will have to subscribe to standards set by this body, and to formalize, ie provide tax reports. Local companies in Tanzania often find the requirements of foreign companies burdensome and choose to opt out. In addition to the industry’s requirements, barriers include lack of access to credit, a bureaucratic business climate, and a system that favors businesspersons who are politically connected.

When it comes to reporting on local procurement, there has been a tendency to focus on numbers rather than quality, and there are enormous discrepancies between the figures reported by some of the mining companies and figures reported by government bodies. Discrepancies in reporting may lead to mistrust and accusations of inflating the figures, while the companies in fact are of the opinion that their reporting is in line with the country’s policies and laws. The main reason is the absence of

Procurement of goods and services by large scale mines (in USD million)



Based on figures in Tanzania Minerals Audit Agency’s Annual report 2014 (page 37).

Investors that want live up to the public’s and government’s expectations on increasing local procurement of goods and services, may need to invest substantial resources in training and capacity building. Some companies have done so, with varied success. While one project aiming at developing local supply chains was discontinued after three years since it did not contribute to sustainable businesses, projects that provide resources and capacity building to locally based cooperatives have proved successful.

CMI is an independent development research institute in Bergen, Norway. We address issues that shape global developments and generate knowledge that can be used to fight poverty, advance human rights, and promote sustainable social development.

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Catering is perceived to be one of the few success stories when it comes to local procurement of services by international investors in Tanzania. Up to 2007 all the large scale mines in the country used catering services from abroad, but as per 2016 a Tanzanian owned firm provides catering services to four of the large scale mines. The main reason for this shift is that the company was able to offer high quality services at a price that was very much lower than that of foreign catering firms. While 98-99% of the company's staff reportedly are national, the company hires expertise from abroad in order to fulfil the needed international food safety certifications. This case demonstrates that when quality services at a competitive price are available locally, international companies opt for that, even if the law does not require them to do so. However, in 2015,

this particular company paid some of its unskilled workers in Dar es Salaam a monthly salary of Tshs 180,000 (approximately six dollars per day and no extra benefits). While this wage is not below the official minimum wage, it is clearly extremely hard to live by. In this case, local content benefits the owners of the company but has limited benefits for lower level employees.

Conclusion

When designed and carried out on the basis of the needs of the industry, and in close cooperation with existing institutions, training programs and cooperatives can contribute to local content development and employment, creating a win – win situation. However, investors and government bodies should pay more attention to the work conditions offered by local suppliers to ensure that local content initiatives benefit ordinary Tanzanians. Moreover, regulations and policies must be clear and easy to interpret to avoid discrepancies in local content reporting.

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