

# EAGER

## Policy Brief

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### **Growth and Equity: Gemstone and Gold Mining in Tanzania**

**In identifying three major opportunities for enhancing economic growth and socioeconomic equity in the mining sector of Tanzania, the research\* team developed the following recommendations:**

- **balance development of modern and small-scale mining;**
- **create a business climate that is safe, legal, efficient, and competitive with Kenya; and**
- **develop value-added activities.**

In terms of its resource base, Tanzania's mining industry has substantial economic potential. Following the economic reforms of the mid-1980s, small-scale mining has proliferated, generating employment for large numbers of rural poor. Estimates indicate that more than 550,000 people are employed in small-scale mining activities compared with only a few thousand in the 1980s.

To develop a better understanding of current market operations, USAID, through the EAGER project, supported a study of mineral marketing in important mining areas. The study reports findings for the northern and lake zones and supplements a detailed examination of the small scale mining sector commissioned by Tanzania's Ministry of Energy and Minerals in 1996.

Using rapid appraisal methods, the EAGER study team traced activities at every level of the marketing chain, conducting informal interviews with miners, traders, mining officials, representatives of mining companies, police, immigration officers, and others. The team identified three major opportunities for enhancing economic growth and socioeconomic equity in the mining sector. Each is discussed below, with specific recommendations highlighted.

#### **1. Balance development of modern and small-scale mining**

As part of its commitment both to maximize fiscal and export earnings from mining and to improve the efficiency and competitiveness of the sector, the government of Tanzania has developed investment promotion plans and signed a number of exploration and production contracts with international mining companies. At the same time, the government has made a series of commitments to keep opportunities open for small



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companies and artisanal miners.

To achieve balanced development of modern and small-scale mining, the government should *establish a zoning plan* that reserves some areas for modern, capital-intensive mining and others for artisanal mining. Modern methods can accurately identify major deposits, leverage needed investment capital, produce higher yields and faster growth, minimize smuggling, and protect the health of mine workers. Artisanal miners use labor-intensive methods and can mine alluvial deposits with hand tools in relative safety and with less environmental impact than in the case of pit mining. Production is slower, but slower production is generally beneficial because it avoids production surges that saturate the market. Given Tanzania's rapidly growing and underemployed labor force, preserving room for a labor-intensive approach has a sound economic and social rationale.

**The government needs to create reserves for artisanal miners**, including alluvial deposits and reefs that are too narrow to be exploited by large companies. Where possible, the first 30 meters of large reefs should be reserved for artisanal miners. International mining companies may object as such areas are the most cost effective for their mining activities as well. But international companies can and do take over areas that have been mined by artisans for centuries and earn profits from the deeper levels.

**The government of Tanzania should prevent international mining companies from buying out claim holders in protected areas.** Many of the exploration permits issued to international mining companies overlap existing small-scale mining operations for which valid claims are already registered. Buying out small claims is standard practice in mining but poses problems for Tanzania's policy of protecting small-scale mining as a source of employment. Buyouts may be generous and may even include a share in the mining interests, but ongoing compensation is unlikely

and few jobs are available in international mining companies. For every claim holder bought out, 10 to 200 Tanzanian workers and their families lose access to an important source of income.

**Increased local authority and the implementation of community development plans can improve living conditions in mining areas.** These actions will help formalize most economic activities in mining communities and hence increase the number of tax payers. Some revenue should be earmarked for environmental restoration and improvement of community social services.

## **2. Create a business climate that is safe, legal, efficient, and competitive**

The government of Tanzania should continue its efforts to *create a regulatory framework and infrastructure that makes Tanzanian markets more competitive and encourages the mineral trade to follow legal channels.* In ongoing efforts to establish policies and regulations, Ministry officials should involve professional mining associations, gemstone dealers, and other mining sector participants.

To be competitive with Kenya, the government of Tanzania should *reduce or eliminate all taxes and royalties on exports of artisanal precious minerals production.* Attracting trade into Tanzania would generate additional foreign exchange for the purchase of imports. Taxes on these imports would compensate for foregone revenue, which is currently collected on only 5 to 40 percent of precious minerals exported. Since current laws are impossible to enforce, they encourage smuggling. Precious minerals are easy to conceal and cannot be readily controlled across long, largely unmonitored borders. If taxes are reduced (but not eliminated), they should be consolidated, paid at a single point, and kept to a minimum.

To promote mining development, the government should *invest in infrastructure, including roads, telecommunications facilities,*

*and electricity, and encourage investment in support services such as banks and insurance.* Poor roads and the absence of communication facilities hamper business operations. The lack of local banks exacerbates security problems for miners and traders. The risk of theft extends throughout the entire marketing chain. Local safe vaults or bank branches with safe-deposit boxes are also in short supply. At present, dealers must ensure their own security.

*The government should create central buying offices* or neutral certification services whose valuations are trusted by buyers, sellers, and bankers. A reliable autonomous source of valuation would speed mineral sales for those already in the sector and bring in new people who could be assured of the value of the materials traded. Given that gem valuation is complex and technically demanding, a professional marketing association such as the Tanzanian Mineral Dealers' Association (TAMIDA), should be involved in the certification of gems. Reliable valuation would facilitate access to formal credit by allowing banks to accept gemstone stocks as collateral. The government of Tanzania should:

- establish neutral credit bureaus with computerized accounts and strict rules for repayment. New borrowers can establish a good payment history by starting with a small loan, and through timely repayment become eligible for a larger loan.
- improve security for legitimate operations. Public services such as police, customs, revenue, and immigration are essential for the smooth growth of the mining sector. Arrests of illegal mineral brokers can help the government campaign for all operators to secure licenses and pay taxes. On the other hand, harassment of people with valid broker licenses encourages operators to avoid securing legal licenses.
- initiate frequent inspections of mines to ensure minimal safety standards and to identify inactive sites. Frequent inspections would mitigate dangerous

underground mining and identify areas granted to mining companies or individual owners who have failed to operate them. Inactive mines are supposed to revert to the state, but in the Uмба Valley mining area, for example, workers invade unattended gemstone claims and mine in an uncontrolled manner.

- remove remaining foreign exchange controls. The government of Tanzania needs to retain the requirement that a form must be filed for exports worth over \$10,000 but eliminate the requirement that receipts must be repatriated and exchanged at the cheque rate before they are changed back into foreign exchange for subsequent use. The form itself may be helpful for distinguishing legitimate sales from money laundering activities, but forcing repatriation and exchange is perceived as an unjust and costly nuisance (a loss of 2 to 10 percent overall).
- simplify immigration procedures. The Immigration Department should simplify business visa procedures for mineral buyers and resident permits for foreign investors and workers in value-added activities. The Department should work closely with the Mines Department and with mining association leaders to identify foreign mineral buyers. The Department should also be strict about requiring visas. A get-tough policy will promote legal trade.
- improve coordination among government departments and with representatives of mineral operators to lower administrative costs and to reduce the bureaucracy that hampers mineral operations. Plans and records of operators in the areas of inspection, taxes, and other relevant issues should be shared among government departments. Tax assessment procedures should be clear to mineral operators. Educational programs should be carried out to discourage informal practices.

### **3. Develop value-added activities**

The government of Tanzania *should support value-added activities through policy reform, market information, and small busi-*

**ness development.** Value-added activities include gold purification, gem cutting, jewelry and crafts making and mining services. The government of Tanzania needs to:

- develop policies and infrastructure to support value-added businesses. Roads, power supply, and telephone lines are essential for businesses. The government should establish policies that reduce user costs for all these inputs and create a uniformly enforced and predictable fiscal framework to facilitate business planning.
- conduct a survey of the equipment and supplies needed to enhance value-added activities and use tax incentives to encourage more value-added activities. Jobs and incomes can be generated from investments in road building and from the development of businesses that supply mining and purifying equipment and jewelry-making equipment and supplies. For example, second-quality gemstone material that is currently left in the mining area could be fashioned into jewelry or crafts if polishing tumblers and the metal settings for jewelry were made available in mining villages.
- support the mining sector through training and promotional activities. Options include providing extension services for minerals identification and other market preparation activities and offering tax credits to persons who work in small-scale mining for investments in training, attending gem shows, or engaging in value-added activities. The government could also work with professional associations to provide better international market information, for example, by posting a web page on the Internet with information on active local dealers and their areas of specialization. (Such pages exist for Thai, Sri Lankan, European, and North and South American

counterparts.) A gem center in Arusha, with local branches, could serve as a library, and provide mining and mineral market information to operators at a modest fee.

- revise the existing recording system to allow easy data processing and monitoring of resource trends for individual colored stones, gold, and diamonds. The information would enable the Mineral Resources Department (MRD) to advise dealers and miners on minerals trading. The Mineral Resources Department currently has no foreign market information and offers no training in gemology.

### **Conclusion**

The government of Tanzania can promote economic growth and socioeconomic equity by establishing and enforcing a zoning plan that balances the development of modern and small-scale mining. To create a business climate that is safe, legal, efficient, and competitive, the government should continue developing policies and regulations that encourage mining and should make investments in infrastructure that facilitate business activities. Finally, the government should support value-added activities through policy reform, market information, and small business development.

*\*This policy brief is based on research by Rogers Sezinga (TanDiscovery), Lucie Phillips (IBI), Haji Semboja, and Godius Kahyarara (ESRF), *Gemstone and Gold Marketing for Small-Scale Mining in Tanzania*, 1997.*

*The views and interpretations in this policy brief are those of the authors and not necessarily of the affiliated institutions.*

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