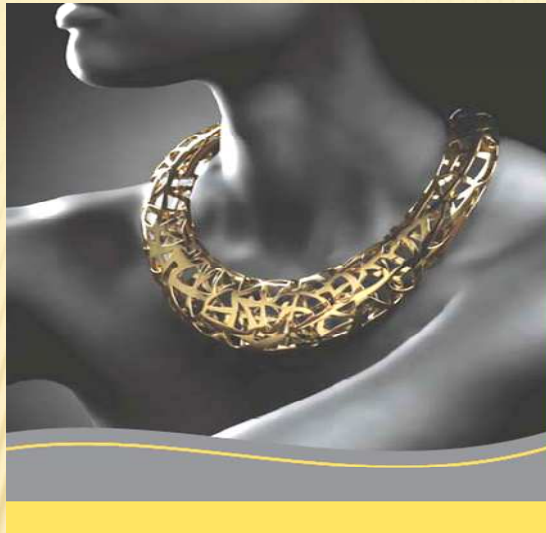


THE APPLICABILITY OF MINING AND TRADE LAWS ON COMPETITIVENESS OF SMALL SCALE GOLD MINERS IN TANZANIA AND ZAMBIA



SOURCE: South African Gold 2007

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**For Round Table Africa – An Overview of Gold Value Chains for
Tanzania and Zambia**

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Abstract

There is a paradox coming out of the operations of the mining industries in most developing countries. It was believed that the presence of minerals in a country would automatically lead to growth and improved welfare of the people. This has not happened and has led to the theories of a “resource curse”. Gold is one of the precious metals and is found in substantial amounts in both Tanzania and Zambia. Tanzania’s gold mining operations are advanced than those of Zambia. The later has been concentrating on copper and cobalt mining. The main problem for my research emanates from the fact that the prevailing laws and policies are weak and this has contributed to a host of conflicts and the mining industry has not improved the livelihoods of its citizens. The main objective of the research is, therefore, to review the mining and trade laws along with cultural codes so as to establish as to whether they facilitate small scale gold miners become competitive. The research will explore the laws at local, national, regional and international levels. The small scale miners include a good number of women who are currently marginalized and the research will identify the legal aspects that will promote their participation in the mining industry. Initial mapping of the gold value chains for Tanzania and Zambia are presented with an analysis of the value added margins and key issues arising from each link of the value chain. The gold value chain involves mining and ore beneficiation, refining, fabrication, wholesale and retailing. Zambia is not active on jewel fabrication Small scale miners deal directly with brokers and dealers at the local level. The lead firms are the Multi National Enterprises including the London Bullion market Association and international gold exchangers. The value chain for small scale miners needs both process and product upgrading. Analysis of the contents of the mining and trade laws along with local codes will facilitate in creating an enabling environment for the small scale miners to grow, compete and finally thrive just like the big scale miners. The analysis will hopefully contribute to bringing in solution towards the “resource curse”. Small scale miners make higher profit margins than large scale miners but the issue for them is on the quantity mined. There are opportunities for partnering with small scale miners in mining, refining and fabrication operations.

SECTION 1: Global Gold Value Chain

1.0 Introduction to Section

An overview of mining in Tanzania is provided. The overview is preceded by information on the resource curse. In Tanzania, there are both large as well as small scale miners. There is limited activity on gold mining in Zambia. The government has a role of enabling the mining industry through the formulation of policies and laws. Critical analysis of the link between regulations, value chain and the resource curse is crucial.

1.1 Background

The mining industry is one of the important sectors for the development of a country's economy. About 13 million people in developing countries depend on revenues from mining activities (ILO, 1999). Over the years, the mining sector has involved both large as well as small scale mining operations. The former is highly mechanized with active participation of the multinational enterprises (MNEs) while small scale mining takes different forms with many stakeholders.

Gold mining has been going on from time immemorial and for centuries, gold has been taken as one of the precious metals and in many situations treated in the same way as money. In this way gold holds a special position in socio-economic well-being of a society.

In Africa, countries that have substantial gold deposits include Ghana, South Africa, Burkina Faso, Sierra Leone, Democratic Republic of Congo, Zambia and Tanzania. Most of these countries, for the exception of Zambia, are advanced in gold exploration and mining. Most of these countries which are rich in natural resources happen to be the ones that are experiencing high levels of poverty. On its first edition (2004) on "The Extractive Industry Transparency Initiative", A DFID article on mining (www.dfid.gov.uk) pointed out that there is a close correlation between countries rich in natural resources and the countries with high levels of poverty. These facts are further supported by Mil & Tulder (2007) in their analysis on the resource curse concept. From the DFID article, we further learn that the mining industry is bringing in revenues to the government in the form of taxes, royalties and other payments. In view of this, the revenue from this sector is supposed to contribute to economic development of the countries. One of the challenges for many governments is on how to ensure that the revenue from mining is known and benefits all the stakeholders especially the indigenous community members.

The concerns on who benefits in mining operations prompted the formation of Extractive Industries Transparency campaign that was launched in 2002 by the then Prime Minister of United Kingdom, Tony Blair. This was during the World Summit on Sustainable Development held in Johannesburg. The initiative addressed issues of transparency over payments by mining companies to the government. The governments were also expected to be transparent and accountable for the funds they got from extractive industries. The initiative came about as a result of observed lack of accountability and transparency by both the governments and companies that led to poor governance and perpetuated poverty.

Most of African countries are members of World Trade Organization (WTO) and they also belong to regional trade arrangements. Some agreements under the WTO place preferential treatment for exports from developing countries but according to Tupy (2005), these arrangements will not benefit the developing countries unless the domestic conditions that are, political stability and regulatory restrictions are handled appropriately.

Memberships of countries to regional and international spheres are expected to facilitate exports of commodities including gold and its fabricated products. Since 1990s, many countries have liberalized trade and this influenced formulation of new laws to accommodate the changing environment in international trade. The European Union is currently engaged in “Economic partnership Agreements” with both Tanzania and Zambia among other countries.

The current research will review national mining laws, cultural codes, regional trade agreements and related international laws with the aim of establishing as to whether the laws are facilitating small scale gold miners in Tanzania and Zambia access global gold markets? According to a Handbook prepared by the South African Department of Minerals and Energy (2003), largest jewel consuming countries include India, China, United States of America and Saudi Arabia. The research will also identify factors that will increase the participation of women in the mining sector. Women form a special group that requires legal attention especially on issues of land ownership. The mining industry need to comply to laws, conventions, codes, covenants and customs so as to protect human rights, self-dignity, social rights and protection of the environment (Miranda et al.).

With the introduction of trade liberalization laws, there was a dramatic increase of mining activities by MNEs as well as artisanal and small scale miners. This paper provides an indication of the issues arising from each link within the global gold value chain.

1.2 Introduction

According to Haufler (2001), “*regulation is action or behavior that is required by government. It is not voluntary and the regulators are public authorities. Regulation is the formal rules or standards that dictate what is acceptable and required behavior, putting limits on what is permissible*”. Government policies can play a positive role in ensuring that poor countries benefit from international trade. Countries such as Hungary, Latvia and Slovenia adhered to coherent policies and this fact helped them improve on their competitiveness (World Economic Forum, 2007). This, therefore, shows that much as globalization may be important so is domestic policy environment.

Research evidence supports the fact that presence of conducive policies along with proper institutions makes a major contribution towards growth of developing countries. According to Tupy (2005), Sub Saharan African countries experience poverty because of political instability and lack of policies and institutions that are necessary for the market economy to flourish. Existence of weak policies has been cited by many scholars and this study will address this problem by analyzing the mining sector with a view of establishing as to whether the prevailing mining and trade laws are facilitating the different stakeholders connected with the sector and especially the small scale gold

miners. Legal interventions within each link of the gold value chain will be examined. The government has a role of creating an enabling environment so that it increases the competitiveness of its firms (Dunning et al, 1997). Sub Saharan African countries need to catch up and Dunning and Narula (1997) have pointed out on what was needed by the firms in these countries and this included acquiring knowledge on markets for inputs as well as outputs and efficient utilization of information technology. Trade liberalization has come out as one of the strongest recommendations to help Africa become more competitive in international trade. Africa needs to exercise more on trade openness as research has shown that countries with the greatest freedom to trade tend to grow faster than those that create a lot of domestic protectionism (Tupy, 2005). This is a paradox for many countries within Sub-Saharan Africa as they have to some extent liberalized their economies and are encouraging investors to come and do business but the situation of those at the bottom of the pyramid has not changed.

1.3 The Global Gold Value Chain

A typical gold value chain involves the following:

- Mining
- Refining and recycling
- Fabrication
- Wholesaling
- Retailing

Refining entails primary refining where virgin mined material is refined. There is also secondary refining where scrap gold is recycled.

After refining the product goes to fabrication of gold bars, jewellery, coins, dental and industrial use. Around 70% of gold demand is in jewellery, 11% is industrial (dental and electronics), 13 % investment (institutional and individual bars and coins)

(www.gold.org/faq/start).

It is a well acknowledged fact that not all gold mining activities are conducted legally. The main concern is on the activities of artisanal and small scale gold miners. This is an area that is contributing a gap in the gold value chain literature as research is yet to establish the extent and magnitudes of these informal operations.

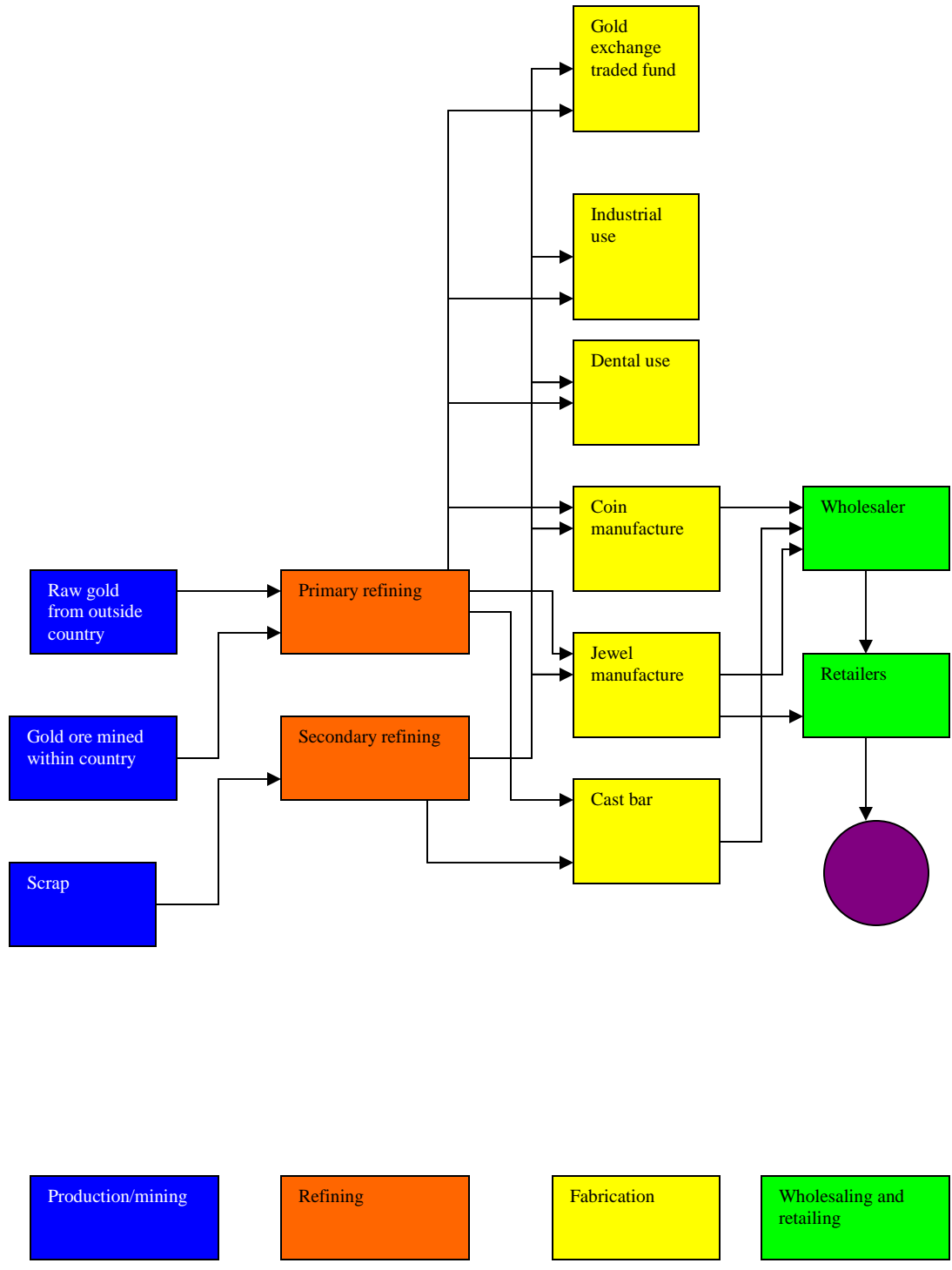


Figure 1: The Global Gold Value Chain

Section 2: Resource Curse

2.0 Introduction to Section

Resource curse theory is highlighted in this section. Mineral rich countries in most developing countries are not benefiting from resource rents and this is the major concern for many stakeholders. There are countries like Botswana and Norway that have grown economically because of the resource rents. The major question is what made these countries prosper?

2.1 Resource Curse

The world has witnessed two types of scenarios; the first being of those countries that are rich in mineral wealth and are thriving economically and those that have mineral wealth and are not reckoning economic growth. Mehlum, Moene and Tarvik (2006) provided examples of countries that have abundant resources and are doing well as Botswana, Canada, Australia and Norway. While countries like Nigeria, Zambia, Sierra Leone, Angola, Saudi Arabia and Venezuela are losers when it comes to utilization of their resource wealth. Mil (2006) came out with a host of characteristics of mineral rich countries and these included occupying the lowest rank in the Human and Poverty Development Indices, being highly indebted, facing higher export earning instability, experiencing challenges with industrial growth and being vulnerable to economic shocks. All these characteristics have led to conflicts and political instability in many developing countries. Should these countries leave the minerals underground or should they mine and face the consequences? Mineral wealth was supposed to improve economic growth and according to Ernst (2007), this is a paradox that needs to get full attention.

Many scholars have given explanations as to why some countries succeed in managing mineral wealth while other countries fail. Mehlum et al (2006) argue that as long as proper institutions are in place then a country has a great probability of growing. A country like Zambia did very well in the 1970s when according to Nil (2006), the country was able to bargain for copper and in the process improved foreign exchange earnings. Zambia strengthened fiscal linkages by imposing an export tax of 40 percent of the value of ore, and an income tax of 45 percent on profits after royalty and export tax. Royalty payments stopped in 1969 and taxes shot up to 73% and the Zambian government took over 51 percent of ownership of major mines.

On its first edition (2004) on “The Extractive Industry Transparency Initiative”, An article by the UK Department for International Development (DFID) on mining (www.dfid.gov.uk) pointed out that there is a close correlation between countries rich in natural resources and the countries with high levels of poverty. These facts are further supported by Mil & Tulder (2007) in their analysis on the resource curse concept. The concerns on who benefits in mining operations prompted the formation of Extractive Industries Transparency campaign that was launched in 2002 by the then Prime Minister of United Kingdom, Tony Blair. This was during the World Summit on Sustainable Development held in Johannesburg. The initiative addressed issues of transparency over payments by mining companies to the government. The governments were also expected to be transparent and accountable for the funds they got from extractive industries. The

initiative came about as a result of observed lack of accountability and transparency by both the governments and companies that led to poor governance and perpetuated poverty.

2.2 Resource Curse and Gold Mining in Tanzania and Zambia

The liberalization of the mining sector has not been smooth and there have been situations where the local communities and local miners had conflicts with the MNEs. Mining operations in Tanzania and Zambia have been characterized by factors like displacements of local communities resulting in loss of farmland, establishments of unplanned settlements (ghost towns), deployment of open-pit technology, land disputes and lack of coordination between governments and local communities. In their article on “Indigenous peoples’ and Mining Encounters: Strategies and Tacts”, Downing et al (2002) provide the same list of issues including loss of civil, spiritual and human rights. All these indicate that there is a decreasing capacity of governments to regulate domestically as well as to negotiate international agreements about the behavior of the MNEs. In Tanzania, the small scale mining operations are done haphazardly using mercury that is harmful for the environment. Further to this, these local miners are operating with no proper license and are engaged in informal gold trade. The main problem of this research, therefore, is the presence of weak laws and policies that are not facilitating the small scale miners to upgrade and access the global markets and in this way alleviate their economic status. How can the government facilitate small scale gold miners access the global markets? Are the regional as well as international trade arrangements helping the small scale miner? Does Tanzania need large scale gold miners?

A report on gold by Curtis and Lissu (2008) showed that Tanzania is not benefiting from gold mining because the large scale miners claimed losses and were paying low rates of royalties. The report further pointed out that there was no transparency and that large scale gold mining had contributed to mass unemployment. Reading the report, one wonders, does Tanzania need large scale miners?

Section 3: Comparisons between Tanzania and Zambia on Gold Mining

3.0 Introduction to Section

A summary on the comparison between Tanzania and Zambia is provided in tabular form. These two countries have been selected because they both possess gold in substantial quantities. Tanzania is more advanced in gold mining while Zambia’s gold mostly comes out as a by product in copper mining and literature is yet to present the flow and actual magnitude of this gold. A gold study that was conducted by EU and the government of Zambia (2008) provided a problem tree that summarizes all the concerns on gold mining in Zambia. The tree provides the major problem in gold mining being the untapped potential and this comes about because of limited activity towards mechanized gold mining and by 2007, there was no artisanal gold mining going on. The limited

activity towards gold mining is due to the unfriendly business climate as well as insufficient capacity to administer gold mining. Studying these two countries will help Zambia come up with proper strategies as it addresses the issue of encouraging mining in non-traditional minerals. Table 1 provides competitive indicators suitable for mining industry.

Table1: Competitive Index for Tanzania and Zambia – Mining Sector

Indicator	Tanzania	Zambia	Source
1. Crime and justice – intentional homicide per 100,000 people; 2000 - 2004	7.5	8.1	Human Development Report 2007/2008
2. Total energy supply (Metric tons of oil equivalent) - 2005	20.4	7.1	Human Development Report 2007/2008
3. Electricity consumption per capita – 1990 – 2004; % change	4.5	-7.8	Human Development Report 2007/2008
4. Unemployed people - % of labor force; 1996 - 2005	5.1	12.0	Human Development Report 2007/2008
5. Net foreign Direct Investment Inflows; 2005/2006	3.9	3.6	Human Development Report 2007/2008
6. Gold Exports (no index)	US \$ 42.2 million between 1997 and 2003	US \$ 3 billion between 2001 and 2007	Curtis & Lissu (2008), A Golden Opportunity? Report of the Mining Sector Diversification Program (2008)
7. Life expectancy at birth, 2000 - 2005	49.7	39.2	Human Development Report 2007/2008
8. Taxes and Royalties		US \$ 90 million between 2001 and 2007	Curtis & Lissu (2008), A Golden Opportunity?
9. Infrastructure	2.65	2.75	Global Competitive Index 2007/8
10 Location	Has sea port access	Is landlocked with bad neighbors	

Tanzania is more competitive than Zambia when it comes to gold mining. Zambia has been concentrating on copper and cobalt mining but there are great potentials of exploiting their gold reserves and the government of Zambia has come up with strategies to encourage mining in non-traditional minerals. The major challenge for Zambia is availability of electricity and oil along with the fact that the country is landlocked and is surrounded by bad neighbors. This paper provides an initial indication of what is happening in Tanzania and Zambia.

SECTION 4: GOLD VALUE CHAINS FOR TANZANIA & ZAMBIA

2.0 Introduction to Section

A review of laws entails looking at the factors that may have influenced the formulation of a particular Act. These factors could be socio-cultural or economic. Most of the mining and trade laws developed in Tanzania and Zambia during the past decade seem to be influenced by globalization. The current research is going to map out the global gold value chain in order to understand the big picture and hence look for ways of making the small scale gold miners fit well within the chain. The relationship between globalization and poverty is not well understood (Goldin & Reinert, 2006; Tulder R & Zwart A, 2006). A lot of activities are taking place at global level and these activities could be in the areas of social, economic, cultural, political or technological. Goldin et al (2006) have come up with five dimensions of globalization namely trade, finance, aid, migration and ideas. One school of thought asserts that globalization can lead to increased international trade that will in turn help alleviate poverty through job creation, increased competition, improvement in education and health and technological advancements. On the other hand, it is felt that globalization has benefited the middle income developing countries and not the least developed ones (Dunning & Narula in Buckley et al, 1997). The Round Table Africa Program aims at ensuring that producers in the South benefit in international trade.

2.1 Global Value Chain Analysis for Policy Makers

Schmitz (2005) has provided a guide on how policy makers can identify sector issues that require government interventions. The guide (Schmitz, 2005) defines a global value chain as “the sequence of activities required to make a product or provide a service”. The activities are carried out in different parts of the world, and some activities bring in better returns than others and some actors are more powerful.

Literature provides trajectories of value chain upgrading and these include process upgrading, product upgrading, market upgrading, functional upgrading and chain upgrading. All these upgrading strategies have legal implications and these need to be analyzed for each commodity.

There are different kinds of value chains and this may require different responses from policy makers. The goal of the policy maker should be to ensure that local producers compete in global trade arrangements as well improving the working conditions. The

chain links deserves special attention and according to Schimitz (2005), the quality of domestic linkages and domestic support systems plays a crucial role in creating international competitiveness which has to take into considerations the needs of both the buyer and the producer.

A typical mapping of gold value chain is provided as figure 2.1 and table 2.1 gives a summary of stakeholders, issues, possible interventions and main actors. The information is as obtained from literature and field research will further confirm of what is happening on the ground. Typical activities in a gold value chain include mining and beneficiation, refining, fabrication, wholesale and retailing.

Small scale miners are dealing directly with brokers and dealers. These are licensed and according to the Tanzania Mines Act (1998), are the ones allowed to possess gold in form of bars.

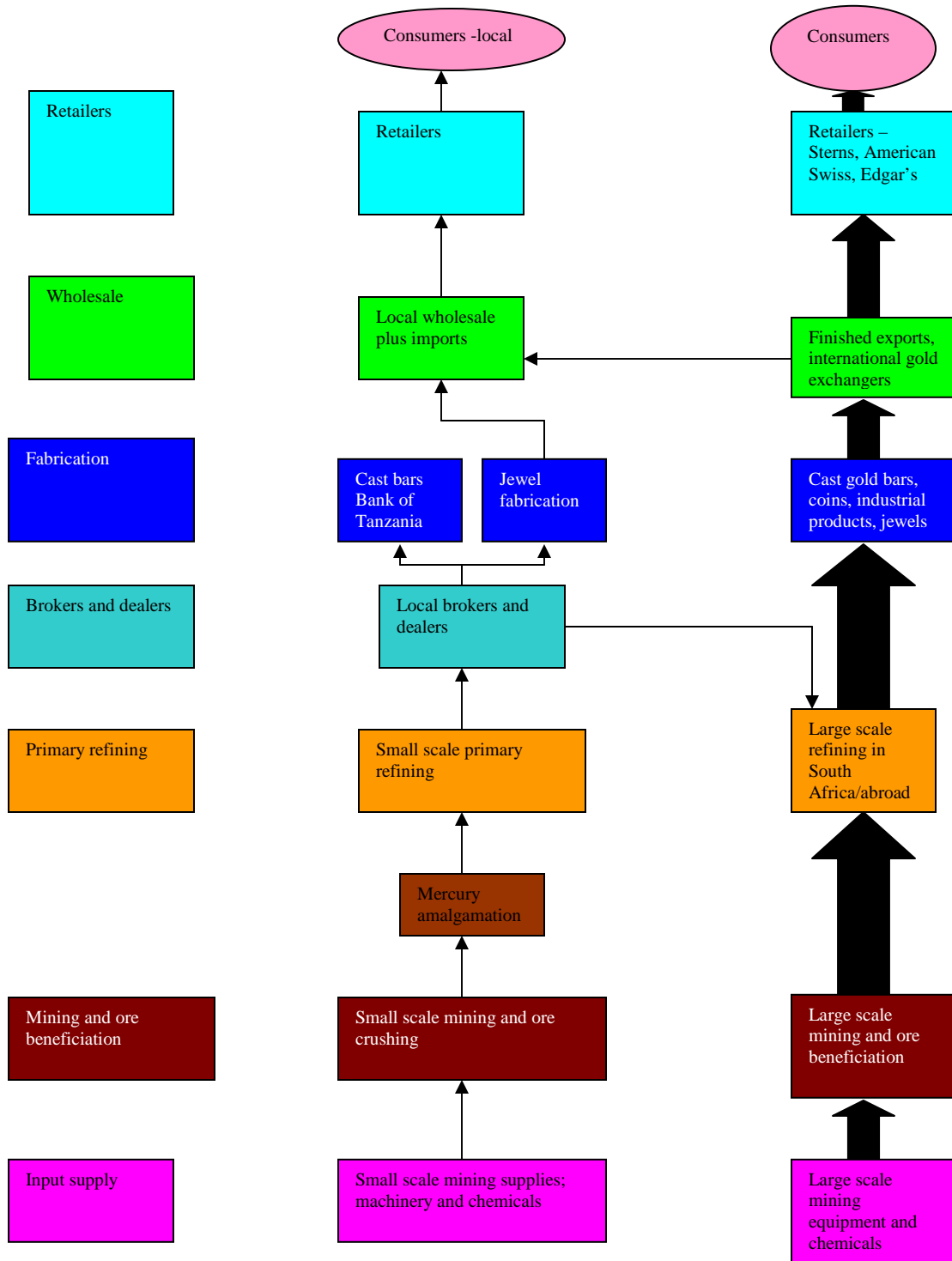


Figure 2.1: Gold Value Chain for Tanzania

2.2 Tentative Gold Value Chains for Small Scale Gold Miners in Tanzania and Zambia.

Small scale gold miners in Tanzania and Zambia sell their gold to brokers and dealers. Some of these dealers and brokers are registered but some are involved in smuggling the gold outside the borders. Initial interviews with jewel fabricators in Arusha (A town situated on the Northern part of Tanzania) and Zanzibar showed that the fabricators bought most of the gold from Western Tanzania. These same jewel fabricators owned back yard workshops where they fabricated jewels and at the same time had a front shop where they sold finished jewel products for retail as well as wholesale. Some of their products in the shops were imported mainly from Dubai. Preliminary investigations from Lusaka, Zambia showed that there are jewel retailers who import most of their products from Dubai, South Africa and other countries. Jewel fabrication within Zambia is almost non-existence. The research will further confirm this fact as what is presented here is just initial impressions. The mapping of the value chains for Tanzania and Zambia are presented in figures 2.2 and 2.3. It should be noted that the amounts from Zambia are very small but there is great potential to develop gold mining.

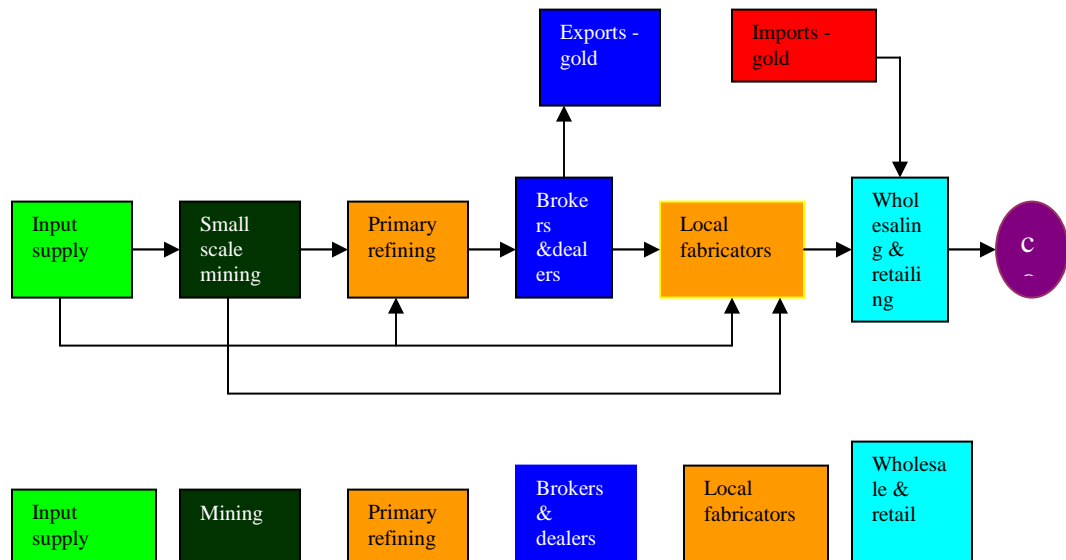


Figure 2.2: Tentative Gold Value Chain Mapping for Small Scale Miners in Tanzania

Figures 2.2 and 2.3 show the mapping for the value chains for small scale gold miners. Large scale miners are involved only in mining but the rest of the activities are done outside the host country and follow what has been presented in figure 2.1. Preliminary investigations have indicated that it is not easy to get information on what exactly happens with different actors within the value chain. Research intends to come up with margins for small scale miners. The linkages with global scenario are with the dealers, brokers and retailers.

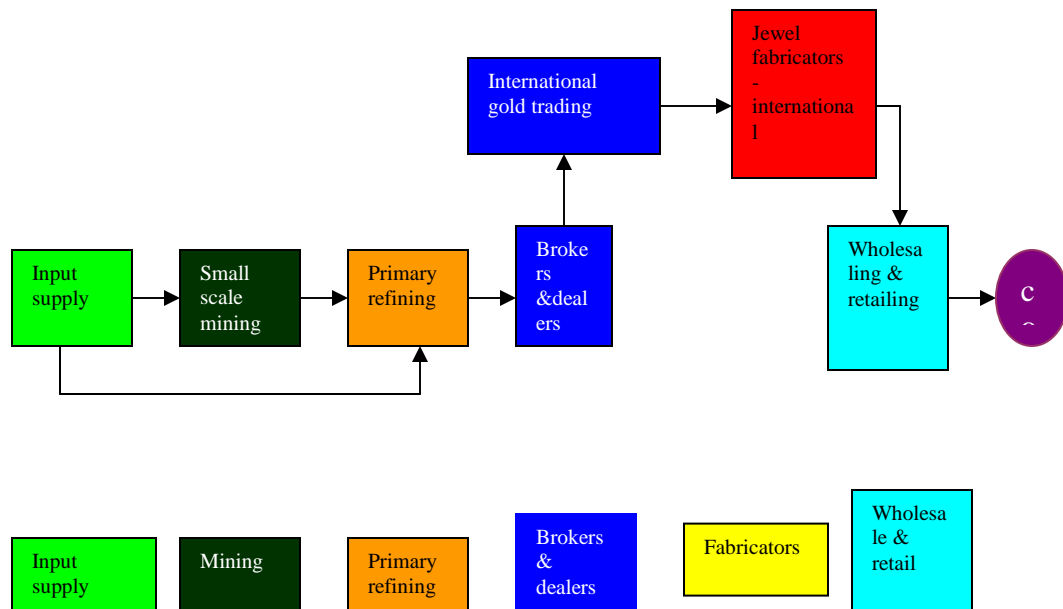


Figure2.3: Tentative Gold Value Chain Mapping for Small Scale Miners for Zambia

2.3 Value Added Margins

Calculating margins along the gold value chain was not easy and this fact is supported by a South African report (2007) on gold value chain. The information on gold income is treated as confidential. This section is providing some indicative percentages. Since a good amount of the gold from Tanzania is exported to South Africa for refining, fabrication, wholesaling and retailing, I have considered those costs taking place in Tanzania at mining stage and those margins as provided from South Africa.

The Tanzania Chamber of Mines provided the following information (Daily News, 2008, April 3). The article was responding to an earlier complaint on “The Gold Plunder Exposed in Tanzania”:

Records show that between 1997 and 2005, gold worth of USD 2.54 billion was produced. The government earned USD 255,526,893 as statutory taxes and royalties.

Distribution of Revenue from Mining

To produce one ounce of gold, the distribution of costs as per The Tanzania Chamber of Mines is as follows:

- 57% Production costs
- 11% Paid as other taxes to government
- 03% Paid as royalty to government
- 10% Repayment of loans and interest
- 07% Capital re-investment on expansion and exploration
- 01% Community development projects and training

The South Africa Gold Report (2007) on gold provides the following information:

- Net margins added to gold in the refining sector range from 0.1 to 3%. The average net weighted margin is approximately 1.5%
- In the jewellery manufacturing sector, net weighted comes to 10%. The figure increases when the products are hand-made
- In the jewellery retailing sector, margins are appreciably higher and give an average net weighted margin of approximately 70%

The figures provided from the Tanzania Chamber of Commerce and the ones from the South Africa Gold have been deployed here to give an indication of the strength of the big mining companies' value chain. It is observed that what Tanzania gains is 14% and the rest goes to the MNEs. The prices of gold are determined by the London Bullion Market Association (LBMA) and this association purchases gold with a quality of 99.5% and are particular on where the gold was refined. Further to this, it is only countries producing the benchmark 10 tones of gold per annum that are allowed to join the influential LBMA (The Financial Gazette, August 28 – September 3, 2008).

	Host Country	Home Country
Retailing		40%
Wholesaling	Some of the jewellery is imported	
Fabrication	No gold fabrication from gold mined by MNEs	30%
Refining	No refining done in the host country	14%
		2%
Mining	14% - Taxes, royalties, community	

Figure 2.4: Indicative Gross Margins for MNEs

2.4 Value Added Margins for Small Scale Mining Company in Tanzania

Tentative margins for a small scale mining company in Tanzania are presented here based on information received from a gold jewel manufacturer based in Zanzibar and his company is known as Hassan Jewelers. This jewel fabricator informed the researcher that he gets part of his gold supply directly from small scale mining companies and has a rich understanding of what happens with small scale mining companies. He sometimes purchases raw gold from brokers and dealers. The price is usually the world prices and unlike large scale miners, the margins that small scale miners made were quite high.

Hassan's argument was that these small scale miners have minimal production costs as they use rudimentary equipment and pay low wages. The only issue for small scale gold miners is on the amounts produced and if they were able to produce large amounts they would have been rich. Hassan preferred dealing directly with small scale miners but occasionally was forced to resort to brokers and dealers much as these had higher prices. As of September 9, 2008, Hassan was purchasing gold at a price of Tanzania shillings 25,000 per gram of raw gold which was equivalent to US \$ 21.74 per gram (Exchange Rate of 1 US \$ = 1150 Tanzanian Shillings). He used a measure of weight in determining quality. The higher the weight of raw gold corresponded with the high amounts of gold. He refined the gold purchased using Nitric acid and silver. He sold his products at Tanzania Shillings 35,000 for 18 carat gold and Tanzania Shillings 40,000 for 21 and 22 gold carats. Most of his consumers are local people. Imports of finished jewels were mainly from Dubai and they went with global gold price. He admitted that it was not easy for him to give accurate profit margins from each activity. The aggregate margins he made from further refining, fabrication and retailing was about 5 percent for refining, 5 percent for fabrication and close to 40 percent on wholesaling and retailing. Hassan pointed out that the gold business was lucrative because he along with other jewel fabricators performed the activities of refining, fabrication, wholesaling and retailing. Hassan would not have realized much if he had concentrated on one activity. Hassan was not conversant on the national trade laws or export possibilities. He had challenges of ensuring security as gold business is a sensitive business. It was easy to do business in 1990s because they used to purchase gold directly from the Bank of Tanzania but the system stopped after trade liberalization. The tool that was used to guide the discussions with Hassan is presented as appendix 4.

Discussions with the jewel fabricator facilitated in coming up with the margins as provided in figure 4. These are indicative margins and the research will bring in more insights. The difference between large scale miners and small scale ones is on the profit margin where small scale miners are making higher margins. The issue then, for small scale miners, as pointed out by Hassan is on the quantity mined. The large scale miners take advantage of economies of scale.

The South African Gold Report (2007) indicated that the price of hand-made finished jewel products were higher than machine –made ones. Hassan told me the opposite meaning that the price of machine-made jewel was higher.

Brokers and dealers were not making very high margins but Hassan informed me that they are financially well because most of them act as suppliers of chemicals and other goods to the small scale miners.

Host Country

38% wholesaling and retailing
5% fabrication
5% refining
2% brokering
50% - Mining

Figure 2.5: Indicative Gross Margins for Small Scale Gold Miners

Employment

Initial indications show that more people are employed in mining activities followed by fabrication, retail and wholesaling. Most of the local fabricators participate in wholesaling as well as retailing including importing jewelry especially from Dubai. The research is expected to come up with a breakdown of the people employed in each link of the value chain.

From Chains to Partnerships

Table 3.1 presents a summary of main aspects along the gold value chain. These are initial impressions of what happens within each link as more information will be obtained during actual field research. Issues arising from each link will facilitate in identifying the corresponding laws, analysis of which, will show as to whether the suggested interventions have been accommodated by the laws.

Table 3.1 provides a summary of the analysis of the value chain at each link. Legal issues are presented as questions as more studies need to be done to establish the solutions.

Table 3.1: Aspects from Gold Value Chain

Chain	Stakeholders	Legal Issues	Interventions	Actor
Input supply	Mercury suppliers to small scale miners Machinery suppliers to MNEs Suppliers of mining tools, both local and foreign Scrap and secondary materials Chemical suppliers for large scale miners Buyers – MNEs, small scale miners, service providers	Controls on importation of mercury Enforcement of environmental laws Prices of supplies, are they stable? Who are the major suppliers? Local companies or foreign? Import duties on machinery and equipment?	Restrictions on the use of mercury More environmental impact assessments Cheap and reliable sources of supplies to be identifies Leasing arrangements of mining equipment to small scale miners	Central government; Customs Local government Suppliers NGOs Mining associations Southern and Eastern African Mineral Center
Ore Processing	Large scale miners Small scale miners – indigenous and others Women miners Service providers Miners' associations Government departments	Ancestral land rights Who gave the large scale miners license to operate? Environment protection including preservation of biodiversity Labor laws Land claim registration procedures Use of mercury Health and safety of mining operations Contracts between government and MNEs Displacement of indigenous people	Conflict settlement procedures to be enforced Conflicts of laws - between land and mining laws Both should ensure protection of those at the bottom of the pyramid especially women Involvement of communities surrounding the mines in issuing of the license to operate Upgrade skills of small scale miners Upgrade technology used by small scale miners Capacity building to all miners on the mining laws and policies Follow up on the on-going	Government – central and local MNEs, small scale miners, artisanal miners, NGOs, Miners' associations, communities surrounding the mines Immigration officials Southern and Eastern African Mineral Center Tanzania Chamber of Mines

		<p>Creation of ghost towns</p> <p>Life span of mines</p> <p>Quality and quantity of gold bearing rocks</p> <p>How much gold is mined by small scale miners?</p> <p>Where do the small scale miners take their gold?</p> <p>Is there a link with large scale miners?</p> <p>Is there a link between small scale miners and artisanal ones?</p> <p>How influential are the local mining associations? Trade unions?</p> <p>Working conditions?</p> <p>What is their profit margin?</p> <p>Transport logistics?</p> <p>How has the government handled conflicts?</p> <p>Are MNEs conforming to the transparency initiatives? CSR?</p> <p>Any illegal immigrants?</p> <p>Cultural beliefs on women and mining?</p> <p>Mining agreements between MNEs and govt.?</p>	<p>reviews of all mining contracts</p> <p>Government to buy from small scale miners at competitive prices</p> <p>Artisanal miners to be organized to improve to a level of small scale miners and get registered</p> <p>Sensitization on gender issues</p>	
Refining and recycling	Refinery owners in Tanzania and South Africa	<p>One small refinery situated in Dar es Salaam which is far from major gold mines</p> <p>What quality standards are being maintained?</p> <p>What is their profit margin?</p>	<p>Small scale miners can be trained on refining to add value</p> <p>Bureau of Standards (TBS) to give certification</p> <p>Consider putting up another refinery in western part of the country where there is concentration of mines</p>	Tanzania Bureau of Standards, business community, small scale miners associations, permit from government, consumers, Tanzania Chamber of Mines
Fabrication – jewels, coins, gold bars	Goldsmiths both local and foreign TBS Bank of Tanzania	<p>Quality control?</p> <p>Machine versus hand-made jewels?</p> <p>Where do they get their supply of gold?</p> <p>Any obstacles in getting gold?</p> <p>Who controls the prices?</p> <p>Who buys their end products?</p> <p>What is their profit margin?</p> <p>Level of technology</p> <p>Employment?</p> <p>Where do they get their gold bars?</p>	<p>Local goldsmiths need to continuously upgrade their skills and be on top of world gold prices in terms of information</p> <p>Need to link the local and foreign ones</p> <p>Branding and certification of jewellery products</p> <p>Formation of an association of jewel manufacturers</p>	Tanzania Bureau of Standards, goldsmiths, government, Tanzania Chamber of Mines
Wholesale	Local and foreign companies – brokers and dealers in gold	<p>Prices?</p> <p>Linkages to global markets?</p>	<p>Take advantage of AGOA</p> <p>Engage professional marketers</p>	Government. Brokers, dealers, customs officials, Tanzania Chamber of

	Customs officials Licensing authorities	Tariffs on gold exports? What is the profit margin?	Development of competitiveness policies	Mines
Retail	Local and foreign companies, Buyers Customs officials Licensing authorities	Registration? Quality? Who are their main buyers? Any market segmentation? Any packaging? What is the profit margin? Any certification?	Engage professional marketers who understand international gold trade	Government, local and foreign buyers, TBS

Section 5: Conclusion

5.0 Conclusion

Most of African countries are members of World Trade Organization (WTO) and they also belong to regional trade arrangements. Some agreements under the WTO place preferential treatment for exports from developing countries but according to Tupy (2005), these arrangements will not benefit the developing countries unless the domestic conditions that are, political stability and regulatory restrictions are handled appropriately.

Memberships of countries to regional and international spheres are expected to facilitate exports of commodities including gold and its fabricated products. Since 1990s, many countries have liberalized trade and this influenced formulation of new laws to accommodate the changing environment in international trade. The European Union is currently engaged in “Economic partnership Agreements” with both Tanzania and Zambia among other countries.

The current research will review national mining laws, cultural codes, regional trade agreements and related international laws with the aim of establishing as to whether the laws are facilitating small scale gold miners in Tanzania and Zambia access global gold markets? According to a Handbook prepared by the South African Department of Minerals and Energy (2003), largest jewel consuming countries include India, China, United States of America and Saudi Arabia. The research will also identify factors that will increase the participation of women in the mining sector. Women form a special group that requires legal attention especially on issues of land ownership. The mining industry need to comply to laws, conventions, codes, covenants and customs so as to protect human rights, self-dignity, social rights and protection of the environment (Miranda et al.).

With the introduction of trade liberalization laws, there was a dramatic increase of mining activities by MNEs as well as artisanal and small scale miners. This paper provides an indication of the issues arising from each link within the global gold value chain.

Tanzania has opened her borders for trade and investors are encouraged to come and conduct business. There are unexploited gold deposits and the agreements with foreign companies are favorable. Tanzania is currently exploiting 4% of the gold potential (Daily News, 2008 April 3). All these pose as opportunities to interested investors. However, there are still tensions between small and large scale miners.

The small scale miners are now organized and there are possibilities of forming partnerships between small scale miners and investors.

If the interventions as suggested in table 1 are implemented the situation of small scale miners will improve.

Mining and beneficiation

The value chain for small scale miners need both process and product upgrading; better supplies of inputs as well as the application of modern mining and beneficiation processes. A partnership between small scale miners and large scale ones is highly recommended. Some large scale miners have included support to small scale miners as one of their corporate social responsibility strategies. The small scale miners need to move from this state of being passive beneficiaries to partnership arrangements. This is an opportunity for investors who would like to partner with small scale miners. It is also an opportunity to large scale miners as they will get an additional source of raw gold.

Refining

Most of the gold fields are concentrated on the Western part of Tanzania where there is no single gold refinery. This is an opportunity for investors. The best scenario is the one where all the gold produced is refined within Tanzania. If this happens, it may halt the use of mercury in gold mining.

Fabrication

There are opportunities for local gold fabricators to link with foreign ones so that they may get more skills and understand the tastes of the major consumers especially in India, Australia, China and Saudi Arabia. If this happens, the importation of finished gold products will go down

Wholesale and Retailers

Prices of gold are set up by the London Bullion Market Association. They are the ones who have control of the pricing. Local retailers and wholesalers need to be on top of the trends and be able to project the future. This is an area where WTO arrangements may be explored.

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www.gold.org/faq/start (Accessed on 2008 June 27) – Frequently Asked Questions about Gold

Appendix 1:

Names and addresses of small-scale gold miners in Tanzania

From the villages of Londoni and Sambaru - at the border between the districts of Manyoni and Singida Rural in Singida Region:

Mr. Yusuph Mwandami
Primary Mining License (PML) Holder
P.O. Box 1643 Singida Municipality
Singida Region

Mr. Ramadhani Mohamed Lyanga
PML holder
P.O. Box 23 Sambaru
Singida Rural
Singida Region

Mr. Paulo Msaraba
PML holder
P.O. Box 74 Kahama
Kahama District
Shinyanga Region

Mr. Mustafa Kaombwe
PML holder
P.O. Box 1612 Singida Municipality
Singida Region

Mr. Limbu Sumbuka Nkilosubi
PML holder
P.O. Box 60 Londoni
Manyoni District
Singida Region

From Matundasi village - in Chunya District, Mbeya Region:

Mr. Paulo Maganga
PML Holder
P.O. Box 15 Matundasi (the local primary school)
Chunya District
Mbeya Region

Mr. Boniface Natai
PML Holder
P.O. Box 15 Matundasi
Chunya District
Mbeya Region

Mr. Faustin Babolio
PML Holder
P.O. Box 15 Matundasi
Chunya District
Mbeya Region

Mr. John Sukemo Msonge
Primary Prospecting License (PPL) holder and PML applicant
P.O. Box 1346 Mbeya Municipality
Mbeya Region

Mr. Peter Buhabi
PPL holder and PML applicant
P.O. Box 75 Makongolosi
Chunya District
Mbeya Region

Mr. Simchimba Makusudi
PPL holder and PML applicant
P.O. Box 15 Matundasi
Chunya District
Mbeya Region

(Source: Jesper Bosse; Researcher gold and livelihoods of small scale miners at the University in Denmark – geography department)

Appendix 2:

List of Large Scale Gold Miners (Curtis and Lissu, 2008)

Name of Company	Location in Tanzania	Country of Origin
AngloGold Ashanti Ltd.	Geita Mines in Mwanza	South Africa & Ghana
Barrick Corporation Ltd	Bulyanhulu Mine, Shinyanga	Canada
Placer Dome Gold Inc.	North Mara	Canada
Resolute Mining Ltd	Golden Pride Mine- Western Tanzania	Australia
Meremeta Ltd	Buhemba	Tanzania
Miniere du Nord	Tulawaka	Canada

Appendix 3: Questionnaire

THE EASTERN AND SOUTHERN AFRICAN MANAGEMENT INSTITUTE

THE APPLICABILITY OF MINING AND TRADE LAWS ON COMPETITIVENESS OF SMALL SCALE MINERS

QUESTIONNAIRE FOR GOLD JEWEL FABRICATORS

1. Name and Address of Organization:
2. Date and Year of Registration:
3. End of Business License Permit:
4. Why did you opt for dealing in gold fabrication?
 - There is a ready market for gold finished products
 - No other employment
 - Obtained training in jewel fabrication
5. What sort of support do you receive from government?
 - Training
 - Information
 - Security services
 - Infrastructure development
6. How long did it take you to process the current business license?
 - Six months
 - Four weeks
 - Two weeks
 - Less than two weeks

7. To what extent are you familiar with the current Trade Act?

..... Not at all

..... To a limited extent

..... To a moderate extent

..... To a great extent

8. To what extent are you familiar with the Export Act?

..... Not at all

..... To a limited extent

..... To a moderate extent

..... To a great extent

9. What changes have you observed in gold trade after 1990?

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10. Where have you been buying gold in the past five years?

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11. Where have you sold jewelry in the past five years?

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12. Who determines the price of gold?

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13. What has been your average profit margin in the past five years?

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14. What challenges have you faced in gold jewelry business?

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15. What opportunities are there in gold jewelry business?

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16. How do you determine the quality of gold?

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17. Who are the main customers of your finished products?

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18. How much gold do you import from other countries?

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