

**PROJECT INFORMATION DOCUMENT (PID)
AFTER PCN REVIEW**

Report No.: AB2029

Project Name	Sustainable Management of Mineral Resources. TAL
Region	AFRICA
Sector	Mining and other extractive (100%)
Project ID	P096302
Borrower(s)	GOVERNMENT OF TANZANIA
Implementing Agency	
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	Ministry of Finance and Economic Development P.O. Box 9111 Tanzania
Environment Category	<input type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> FI <input type="checkbox"/> TBD (to be determined)
Date PID Prepared	July 28, 2006
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1. Key development issues and rationale for Bank involvement

Tanzania still ranks low on the human development scale of UNDP. Poverty remains widespread, with the higher levels of poverty concentrated in the rural areas. The relative slow pace of growth and diversification of the traditional components of the rural economy are main factors in the persistence of poverty. The slow evolution of export agriculture, with low productivity of subsistence agriculture, and overall lack of non-farm income generating activities have limited the opportunities for the rural populations to secure and/or increase significantly cash income, with the exception of both mechanized and artisan mining, which have undergone major growth since the mid-1990s. Further growth in the rural private economy is crucial to enable growth in overall employment and income.

Mining and agriculture have been key sectors of the Tanzanian economy for many decades. However, mining declined progressively after the 1950s, despite a rich endowment of diverse mineral resources and a long tradition of gold, diamond and gemstone mining. Since the late 1990's, mining has rebounded, due to strong government leadership and a market-based approach. Annual gold output increased from 5 to 48 tons between 1999 and 2004, making Tanzania the fourth largest African gold producer. The value of formal exports of gold and total minerals has also increased steadily. Although its contribution to GDP is still small at 1.9 percent, mining is the single most important earner of foreign exchange for Tanzania. About 50 percent of export earnings accrue from minerals, mainly from gold mining by large-scale foreign owned operations." Even with the strong growth to date, Tanzania has substantial potential to produce construction materials to satisfy domestic demand, and to produce gemstones and semi-precious minerals for export. But, sector capacity and performance needs to be strengthened and modernized to incorporate improved technologies and equipment, mining and processing methods, and business practices.

The Tanzanian mining includes mostly large-scale mechanized mines or small-scale operations that involve local entrepreneurs and artisans. Small scale operations are rudimentary, are conducted in ad hoc manner lack adequate controls and monitoring, adhere only minimally to safety and environmental standards, and face a virtual absence of supporting physical or institutional infrastructure. IDA's Mineral Sector Development Technical Assistance Project, approved on July 28, 1994, helped attract investments for mineral exploration and mine development, through a first generation of improvements to the frameworks of the mineral sector, including development of institutions and agencies. However, the rapid growth of the sector, particularly small-scale, artisan mining, swiftly overextended the existing institutional capacity. Government institutions remain under-funded and lack the instruments, know-how and organization required to oversee and support a modern, market-driven mineral sector.

Mining is a priority sector for growth and poverty reduction in Tanzania's 2005 National Strategy for Growth and Reduction of Poverty (MKUKUTA): "Support to the fast growing sectors like tourism and mining will be scaled up and geared towards promotion of employment and appropriate labor regulations. Safeguards will be devised to protect the environment from undue depletion caused by such activities." Updating mining policy and legislations and developing and promoting an enabling environment for investment in mineral value-addition are key actions identified in MKUKUTA.

In February 2004, the Prime Minister of Tanzania constituted a Committee to prepare an in-depth review of the mineral sector, with a view to improving the capacity of this sector to stimulate additional economic growth. The Committee's final report, considered to be a good first step towards a sector strategy, places high priority on small-scale miners as part of the country's broader emphasis on poverty reduction and rural economic renewal. The report emphasizes the urgent need to build capacity, within government institutions and agencies, to: a) enable sustainable development of a modern, market driven sector, with adequate benefits for the country, its people and investors; b) establish a modern and transparent administrative and oversight setup for the sector; c) consolidate the mineral sector growth achieved since the late 1990s; and d) continue developing basic geo-information to sustain investment promotion. The report also notes the need to maintain an internationally competitive fiscal and taxation regime, with modern legal and regulatory frameworks, which are equitable and pragmatic, in order to continue attracting new private sector investment. Development partners, international institutions and bilateral agencies are now considering support for the further development of this work, into a comprehensive sector strategy, whilst also supporting the implementation of the report's recommendations.

2. Proposed objective(s)

The development objectives of the proposed operation are to:

1. Increase the long-term institutional and technical capacity of the Government to manage the mineral resources of Tanzania in a sustainable manner; and
2. Support poverty reduction and stimulate economic growth in selected rural areas of the country, through development of non-farm income generating opportunities based mainly on small-scale and artisan mining activities.

Key Indicators

- Increased minerals production, private investment and exports in the sector as a result of strengthened governance and transparency. New investments in the sector since the start of the project.
- Updated laws and regulations for the sector, adopted by Parliament, addressing cadastral procedures for mineral rights, environmental and social dimensions, and small-scale mining.
- Efficient operation of the cadastral system for the award and administration of mineral rights, including the cleared backlog of pending applications, and new mineral titles issued through the cadastre in transparent and efficient manner.
- Increasing number of small-scale and artisan mining associations established and operational in accordance with applicable law.

- 50,000 employments formalized during the life of the project.
- Increasing number of mining operations benefiting from improved technology, equipment, and business development assistance, and number of mining communities or associations using matching grants under the project.
- Area covered by new geological maps, as a percentage of the total area of Tanzania (target 100%)
- Sustainable environmental practices operational at artisan and small-scale mining communities.
- Environmental Impact Assessments (EIAs) completed for all pilot sub-projects.

3. Rationale for Bank Involvement

The World Bank Group (WBG) has recently completed the Extractive Industries Review (EIR) process, and issued a Management Response, which was approved by its Board. The EIR assessed whether projects in oil, gas, and mining were consistent with the overall objectives of WBG to reduce poverty through sustainable development. This process was initiated during 2001, as a result of criticism from non-governmental organizations expressed to the Bank at meetings of September 2000, in Prague. The EIR was designed to involve all stakeholders, including civil society, indigenous people organizations, affected communities, labor unions, multilateral organizations, and the private sector. The Management Response stated that there is a role for WBG in oil, gas, and mineral sectors, provided that its interventions allow the extractive industries to contribute to poverty alleviation through sustainable development.

The WBG has committed to implement the Management Response to EIR by focusing on governance, transparency, revenue-sharing mechanisms, pro-poor, community development, stakeholder consultation, sustainable environmental management, and other safeguard policies. The Management Response stresses that future WBG projects in extractive industries will be selective, with greater focus on the needs of the poor, governance and transparency, and on the promotion of environmentally and socially sustainable development.

The proposed Sustainable Management of Mineral Resources Project in Tanzania is part of the first round of mineral sector projects, prepared after the EIR process and the Management Response by the Board. Its objectives and implementation are in full compliance with the main conclusions of the latter; it aims to use sustainable development approaches to address poverty. The project's emphasis on artisan and small-scale mining activities addresses specifically the EIR recommendations on stakeholder consultations, engagement of the community, and pro-poor development issues. Capacity building of local small-scale mining populations and introduction of effective social and environmental policies are also part of the project component for artisan and small-scale mining. Additionally, public sector governance issues in the management of mineral resources will be addressed, by the project, through the formulation of transparent and traceable mechanisms for the transfer of fiscal revenues. It will also assist to establish a comprehensive environmental framework, including regulations and guidelines for the sustainable development of the sector, and improved capacity at all levels.

The proposed project also responds to: a) the current government operational target for mining, which is to increase the export proportion of value-added minerals from the current 0.5% to 3% by 2010; and b) the WBG support for progress in privatization, through support for a strategic assessment of STAMICO, to examine its existing institutional capacity and possible options for self-financing, as a pre-condition for its future role with divestitures to the private sector for both, large-scale and small-scale mineral properties.

Finally, the project is also responsive to MKUKUTA in: a) its indication that updating mining policy and related legislations, and developing and promoting an enabling environment for investment in mineral value-addition are key strategic actions; and b) the support of the country's medium- to long-term strategies for private sector growth in the rural economy by increasing government capacity to manage the sector and by fostering the formalization and re-organization of artisan and small-scale mining as legitimate non-agricultural income generating opportunities, while promoting more socially and environmentally responsible mining and processing practices, and the manufacture of downstream products. A major aim will be to identify and promote connected and alternate

opportunities for local economic development, and to identify, assess and propose options for diversified rural livelihood strategies intended to reduce local and regional poverty, and to provide a more sustainable economic basis for community life.

4. Preliminary description

The proposed project includes four components:

A. Component I - Local Economic Development in Small-scale and Artisan Mining Areas

A.1 Baseline studies, pilot projects, and organization of the sector. Further to the recommendations of the Mineral Policy Committee, the Ministry of Energy and Minerals (MEM) has formed a team to prepare and implement programs to modernize and improve the formalization and promotion of small-scale and artisan mining, and their associated direct and indirect impacts and benefits. The Committee and this team have visited and examined key mining areas, in some of which miners have been organized into cooperatives. These activities are based on the experience accumulated at MEM, including the knowledge of field officers with small-scale and artisan mining, and surveys conducted since the mid-1990s. This sub-component would support at least one pilot sub-project for each of the 22 regional or district existing offices to test different strategic and technical approaches to stimulate legal and responsible mining activity, associated economic development, and favorable impacts on community conditions. The project will also support additional smaller sub-projects to address specific mining-related issues, including management, health and others. The sub-component will also assist with the design and implementation of baseline surveys of main selected mining areas and will conduct profiling and assessments to enable detailed program design, implementation and respective monitoring and evaluation of progress.

A.2 Small grants program. Matching grants will be used to: 1) provide individual businesses with: a) financial skills to manage self-employment and micro-enterprises, and b) training and assistance to engage marketing and advisory services, and to select and purchase equipment; and 2) help communities in selecting community-level investments in productive infrastructure, including hubs for marketing and/or mineral transformation, processing and downstream production. This component will undertake to use existing satisfactory capacity and mechanisms available for comparable activities under existing projects supported by the World Bank and other donors, with emphasis on the provision and administration of grants.

A.3 Targeted programs for the development of specific commodities. This sub-component will support technical assistance programs for domestic entrepreneurs to further develop the production and marketing of construction materials. It will also support the manufacturing of value-added in gemstones and semi-precious minerals and the establishment of an integrated pilot breeder for downstream products, which would serve as training, industrial and marketing center, with the aim to develop a competitive small-scale industry for stone carving and polishing, and gold based jewelry. While taking stock of the experience from comparable private sector initiatives in Tanzania, this component will also encourage the use of the TASAF project to underpin comparable activities, and avoid duplications of efforts.

A.4 Coordination and training component. This sub-component will provide technical assistance to support the design and implementation of the pilot sub-projects during the initial years of the project. While support would be initially provided by professional firms, these firms would gradually transfer responsibility for design to the small-scale mining division of MEM, and oversight of implementation to small-scale mining units at the regional and district offices of MEM. This sub-component would also support the creation of a regional center of excellence for training and outreach in the area of small-scale and artisan mining, and related diversification initiatives at the University of Dar es Salaam, and short-term courses targeted to enhance the managerial and financial capabilities of small entrepreneurs. To the extent possible, these activities will use available capacity and arrangements supported by the World Bank or other donors, for comparable initiatives included in other projects.

B. Component II - Strengthening Governance and Transparency in Mining

B.1 Legal and fiscal reform: This sub-component will support the review and updating of the legal, fiscal and regulatory frameworks for this sector and the establishment of an updated statement of Government objectives and policy to promote mineral development, covering both, small-scale and large-scale mining. These would incorporate

international best practice, adjusted to the conditions of Tanzania, and they would follow a participatory approach including stakeholders, other Government institutions and agencies, the private sector and civil society. They would address the main identified constraints and areas of comparative disadvantage, with emphasis on the vast small-scale and artisan mineral sub-sector. Particular attention will be devoted to the roles and responsibilities of central and regional/district authorities, sharing of mineral revenues with local governments and the related communities and transparency, for which the participation of Tanzania in the Extractive Industry Transparency Initiative (EITI) will be encouraged and supported.

B.2 Institutional Capacity Building: This sub-component will support the strengthening of the central and regional/district mineral administrations through training and equipment renewal. It will also support a clarification of their roles and mandates, and the creation of a unit to enhance and reinvigorate the promotion of private investments for exploration and mine development.

B.3. Mineral Cadastre: This sub-component will build on the emerging mineral cadastre currently under development with support from the Nordic Development Fund. It will support the incorporation of cadastral aspects and operations into mineral law and regulations, and establishing the independence of regular control/monitoring work from the cadastre/registry activities. It will also support the full incorporation of the small-scale and artisan mining sub-sector into the cadastre, through the cleanup of existing concessions and applications, including mineral rights and backlogs, and the codification and preparation of a paper cadastre. Finally, it will support the examination and revision of the geodetic net.

B.4. Environmental and Social Management: This sub-component will support the updating of the existing environmental policy, law, regulations and relevant standards in order to reflect the actual conditions identified from the large-scale mines in Tanzania and its expanding small-scale and artisan mining sub-sector. It will support the a) establishment of an environmental management unit for the Minerals Division at MEM; and b) the preparation of a comprehensive guidelines and codes of practice for permitting, managing, monitoring, compliance and enforcement. It will also support a mineral sector environmental assessment which would include a prioritized inventory of abandoned sites, the environmental legacy of “unauthorized” small-scale mining, and the legacy of closure of past state owned mining operations.

C. Component III - Private Sector Development

C.1. Restructuring of STAMICO: This sub-component will support a strategic assessment of STAMICO, for exploring existing capacity and options for a future role with the private sector for both, opportunities for divestiture of areas with potential for large-scale mining, and for provision of extension services to small-scale miners.

C.2 Strengthening of the Geologic Infrastructure: This component would support the provision of basic and reliable geological information necessary to facilitate the promotion of private investments in explorations and mine development, to foster future small-scale and artisan mining, and to support adequate planning of the socio-economical development of the country. This includes: i) complete the regional airborne geophysical coverage of selected areas; ii) complete update and publication of the existing coverage of geological maps at 1:000.000 scale, for sub-areas selected on the basis of their mineral resources and environmental characteristics; iii) upgrade and computerize the existing Geological and Mineral Information System (MIS), to store, process and facilitate access to the information to a multi-sector base of users; and iv) restructure and strengthen the Geologic Survey of Tanzania and its central laboratory at Dodoma.

D. Component IV - Project Coordination and Management

Project implementation, including coordination, procurement, financial management and disbursement will be managed by the existing mineral sector development unit at MEM. Additional staff may be hired to join the unit, but, as with existing unit staff, they will be MEM staff paid by the Ministry in accordance with applicable Ministry standards.

5. Safeguard policies that might apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment (OP/BP/GP4.01)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Natural Habitats (OP/BP 4.04)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Pest Management (OP 4.09)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Cultural Property (OPN 11.03, being revised as OP 4.11)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Involuntary Resettlement (OP/BP 4.12)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Indigenous Peoples (OD 4.20, being revised as OP 4.10)	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Forests (OP/BP 4.36)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Safety of Dams (OP/BP 4.37)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Projects in Disputed Areas (OP/BP/GP 7.60)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Projects in International Waterways (OP/BP/GP 7.50)	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>

Safeguards related to *Natural Habitats* (OP/BP 4.04) and *Indigenous Peoples* (OD 4.20, being revised as OP 4.10) may be triggered by the project depending on the location of the activities that will be supported under the small grants component. Environmental and Social Assessment (ESA) will provide guidance in making this judgment. *Involuntary Resettlement* (OP/BP 4.12) are unlikely. However, dealing with migrating populations related to artisanal and small-scale mining might require addressing resettlement situations. In addition, activities under small grants and the development of specific commodities (e.g. stone carving) may trigger increase in quarrying for the industry to produce the raw materials thus implying land acquisition. ESA will review these possible impacts and if needed a resettlement framework will be prepared.

6. Tentative financing

Source:	(\$m.)
BORROWER/RECIPIENT	6
INTERNATIONAL DEVELOPMENT ASSOCIATION	50
Total	56

7. Contact point

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8. List of Factual Technical Documents

John Williams, Helene de Neuville
 Analysis of Tanzania's Mining Law and Regulations
 September 2004

Robert Parsons
 Mineral Resources Institutional Assessment:
 Analysis of Tanzania's Mineral Sector Fiscal Framework
 July 2004

Enrique Ortega
United Republic of Tanzania
Ministry of Energy and Minerals
Diagnosis of the Current Mineral Cadastre System
July 2004

Jessica Ohlsson, Daniel Waluszewski
Foreign Direct Investments in a Developing Country
The Case of the Tanzanian Mining Industry
September 2005

9. For More Information Contact

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