

A GOLDEN OPPORTUNITY?



JUSTICE & RESPECT
IN MINING

SECOND
2nd
EDITION

HOW TANZANIA IS FAILING
TO BENEFIT FROM GOLD MINING

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A Golden Opportunity?: How Tanzania is Failing to Benefit from Gold Mining
Second edition, October 2008

Published by the Christian Council of Tanzania (CCT), National Council of Muslims in Tanzania (BAKWATA) and Tanzania Episcopal Conference (TEC).
Financed by Norwegian Church Aid and Christian Aid.

Acknowledgements

The report has been commissioned by a reference group consisting of, in addition to the publishing organisations: Norwegian Church Aid, Christian Aid, Tanzania Coalition on Debt and Development, Tanzania Gender Networking Programme, Womens Legal Aid Committee, Haki Ardhi, The University of Dar es Salaam – Faculty of Economics, Tanzania Ecumenical Dialogue Group, Legal and Human Rights Center and World Council on Religion and Peace. Warm thanks goes to all organisations and individuals involved.

Warm thanks also goes to Daloni Carlisle for copyediting the report, to Anton and his team at DJPA in Dar es Salaam for doing the layout and to Richard Murphy of Tax Research LLP for checking tax terms.

All pictures were taken during trips to the mining areas organised by CCT, BAKWATA and TEC.

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Preamble

This is the second edition of this report. The first was launched on 4 March 2008 in Dar es Salaam. Since then there has been a lively debate on mining in Tanzania and the Bomani commission entrusted by President Kikwete to consider mining issues has now issued its report. This second edition has been updated to reflect this debate and comments on some of the content in the Bomani commission report. The debate on how to review the mining legislation in Tanzania is likely to continue for a long time. We hope this report will continue to be useful for this debate.

Foreword

Mining for life

The Earth is the Lord's and the fullness thereof, the world and those who dwell therein
Psalms 24:1

Tanzania is the good work of God intended for all her people. He gave it to us so that we will have abundant life in it. The richness thereof and all that is in it, the resources underneath, the resources on the earth and the people living in it are in God's plan for the joy and prosperity of each Tanzanian. God wants us all to live our lives in fullness.

But it seems that this is not the situation in Tanzania today. This report was commissioned by the Christian Council of Tanzania, Tanzania Episcopal Council and Baraza Kuu la Waislamu Tanzania to address important questions raised by the mining industry, what it is contributing to our communities and our economy and what it is not contributing.

Recently there has been increasing tension and unrest about the mining industry. As religious leaders we wanted to see for ourselves and find out the truth of what lies behind this unrest.

Martin Luther King said in his speech of May 17 1956 that there is as much danger in being an extreme optimist as with being an extreme pessimist. 'The optimist says, do nothing because [change]...is inevitable, [likewise] the pessimists says, do nothing because [change is never] inevitable. [However] it is the realistic position that we would like to set forth.'

For us, the realistic position has always been to seek out the truth because the truth will always set her followers free. We needed the full facts to guide us to this realistic position. In this report we hope we have achieved our goal and we are confident in proposing moral and practical suggestions for the survival of our flocks and the nation at large.

This report highlights two important factors. First it emphasizes the ethical dimension, which, as religious leaders, is our greatest area of responsibility. Second, it highlights the economic situation and the failure of mining corporations to contribute fairly to our economy.

In a nutshell we have found out how deep are the ethical problems that exist among the decision makers in our country. There is no transparency and much of the information is not well coordinated between our decision makers.

Our mining communities are discouraged and hopeless. Those evicted from their land by mining corporations are living in conditions no better than refugees.

The situation challenges the government to make the best of the economic and development opportunities the industry offers and at the same time make good on its promises to protect human rights and human dignity. There have been too many promises from the government to the community and we are compelled to look to the Holy Books and what God says in Quran: 'Tekelezeni ahadi kwa watu, hakika ahadi ziwe ni zenye kuulizwa... Ni adhabu kubwa kwa wale wenye kusema yale wasiyoyafanya. (Fulfill your promises to people, truly, promises have to be followed... woe unto those who speak what they can not fulfill).'

We are neither extreme optimists nor extreme pessimists. However, we have a role as leaders in Tanzanian society. As religious leaders ours is the ethical dimension. As the Dalai Lama¹¹ has pointed out, we are compelled by the fact that 'every religion emphasizes human improvement, love, respect for others, sharing other people's suffering'. Every religion has more or less the same viewpoint and the same goal. Reflecting on these teachings, we repeat the common call on each of us to treat and care for each other in the best possible way.

'You should love your neighbour as you love yourself.'
Leviticus 19:18 (Judaism)

'Therefore all things whatsoever ye would that men should do to you, do ye even so to them: for this is the law and the prophets.' Matthew 7:12 (Christianity)

'None of you [truly] believes until he wishes for his brother what he wishes for himself.' Number 13 of Imam 'Al-Nawawi's Forty Hadiths (Islam)

'Hurt not others in ways that you yourself would find hurtful.' Udana-Varga 5:18 (Buddhism)

'Blessed is he who preferreth his brother before himself.' (Bahà'i)

The situation in the mining industry today has tainted the picture of human dignity. The oppression seems to have risen to a point that threatens the peace of communities. The good image of God is being destroyed and humanity as well as creation suffers the grudge and lust of the rich. In this report we show how we are falling into a trap in Tanzania, killing the future hopes of our next generations. We show how in our country, some people prefer gold to human rights. Gold is the source of their joy, not the cry of the people. Gold is thought to unite people instead of dividing the communities around the mines.

The situation challenges each of us and raises a simple question: What would I like to see others do when I am oppressed, I am beaten, I am chased from my property, I am harassed, my environment is polluted, my dignity is made to be of nothing, my children are dying because of my poverty and my rights are violated? As religious leaders we each of us found the same answer. We will need them to shout of our oppression, to stand for our rights, to be our advocates, to intervene on our suffering and restore our dignity.

As religious leaders we want gold to be a blessing and not a curse to our people and the whole country. We therefore urge every one of the concerned community of Tanzanians to remember that 'a good man leaves an inheritance to his children's children, but the sinner's wealth is laid up for the righteous' (Proverbs 13:22).

We need a mining industry that puts life as the foremost point of reference against the economic gains. We need to uplift the ethical standards of our fellow citizens to be reflected in each activity being done. We need to secure life in fullness for all our fellow citizens. We certainly found that mining for profit is not enough; we need mining for life.

Christian Council of Tanzania
Tanzania Episcopal Conference
Baraza Kuu la Waislamu Tanzania

Executive Summary

Gold mining is the fastest growing sector of Tanzania's economy. Minerals now account for nearly half the country's exports and Tanzania is Africa's third largest gold producer. Yet ordinary Tanzanians are not benefiting from this boom both because the government has implemented tax laws that are overly favourable to multinational mining companies and because of the practices of these companies. Tanzania is being plundered of its natural resources and wealth.

Between 1997 and 2005, Tanzania exported gold worth more than US\$2.54 billion (bn). The government has received around \$28m a year in royalties and taxes on these exports, amounting to just 10 per cent over the nine year period. The 3 per cent royalty has brought the government only an average of US\$17.4m a year in recent years. Raising the royalty rate to, say, 5 per cent would have increased government revenues by around US\$58m over the past five years.

We calculate that Tanzania has lost at least \$265.5m in recent years as a result of an excessively low royalty rate, government tax concessions that allow companies' to avoid paying corporation tax and possibly even tax evasion by some companies if allegations are true. This is a very conservative estimate, in that it does not cover all the gold mining companies or all figures for recent years (which are not publicly available). Neither does it cover the financial costs of other tax incentives such as VAT exemption, which are extremely difficult to estimate. These extra revenues could of course provide a huge boost to tackling poverty in Tanzania. We also estimate that the prioritisation of large-scale gold mining in the country has come at the expense of small-scale artisan miners, around 400,000 of whom have been put out of work.

This report identifies three severe problems with gold mining in Tanzania, namely:

- It provides the government with very low tax revenues
- It is subject to minimal governmental and popular democratic scrutiny and is associated with the problem of corruption
- People in the gold mining areas are barely benefiting and many are being made poorer.



Tanzania is one of the ten poorest countries in the world. Some 12m of the country's 39m people live in poverty, surviving on average incomes of 399,873 Tanzanian Shillings (Shs) (US\$307) a year. At the same time, Tanzania possesses around 45m ounces of gold, which at the current gold price means the country is sitting on a fortune of up to US\$39bn, although extraction costs must of course be taken into account.

The tax system and its hidden subsidies

Tanzania's economy has been substantially liberalised over the past 20 years under the auspices of World Bank-supported economic reforms. Investment and tax laws have been radically revised so that Tanzania now offers a raft of tax incentives for mining companies. These include low royalty rates (3 per cent on gold exports), the ability of mining companies to offset 100 per cent of their capital expenditure (on mining equipment and property) against tax in the year in which it is spent, and low taxes on imports of mining equipment. The government takes no stake in the major gold mining operations, allowing foreign companies 100 per cent ownership. These incentives amount to hidden subsidies for the large mining companies.

The gold mining industry in Tanzania is dominated by two multinational mining companies – the Canadian company, Barrick, and the South African firm AngloGold Ashanti (AGA). Company figures show that AGA has



paid taxes and royalties totalling US\$144m in 2000-07 and over the same period has sold around \$1.55bn worth of gold, meaning that it has paid the equivalent of around 9 per cent of its exports in remittances to the government. Barrick, meanwhile, does not state on its website how much in taxes and royalties it pays to the Tanzanian government – our calculations show that it is paying a figure equivalent to around 13 per cent of its export sales in remittances to the government.

Few mining companies have paid corporation tax (levied at 30 per cent of profits) because they have consistently declared losses. Our analysis, drawing on AGA and Barrick company reports, shows that both companies are making *gross* profits in Tanzania. However, the country's generous tax concessions mean that they and other companies are able to avoid declaring a taxable income.

The Public Accounts Committee (PAC) presented a report to parliament in February 2007 noting that mining companies declared losses of US\$1.045bn between 1998 and 2005. It put the losses down to the capital expenditure allowance and weak documentation of records by the Ministry of Energy and Minerals.

Alleged tax evasion

A government-contracted independent audit conducted by Alex Stewart Assayers (ASA) in 2003, and leaked to the media in 2006, alleged that four gold mining

companies, including Barrick and AGA, overstated their losses by US\$502m between 1999-2003, indicating that the government lost revenues of US\$132.5m. The audit also noted that thousands of documents were missing that would have shown whether royalties valued at US\$25m were, in fact, paid.

Democracy and transparency

The government has pledged that Tanzanians should benefit more from gold mining, but so far only modest changes to the country's tax regime have been made. The government fears that too much reform will upset the companies, donors and international institutions, none of which is championing tax reform. There are also concerns in Tanzania, though no evidence has been produced to support them, that some government officials relating to the mining industry may be prone to corruption.

The government, pressed by the World Bank and donors, has been able to grant huge tax concessions to overseas mining companies partly because there is inadequate democratic scrutiny. Gold mining in Tanzania remains shrouded in secrecy. Parliament has never formally seen any of the contracts signed by the government with the mining companies; the recent contract for Barrick's new Buzwagi mine has been widely viewed in Tanzania but only since it was leaked to the media. The agreement signed in October 2007 by the government with AGA for its Geita mine remains secret. The government's repeated refusal to make these agreements public means that elected representatives cannot influence the terms under which foreign mining companies extract the country's most lucrative resource. The parliamentary PAC is supposed to scrutinise the government's accounts, yet it has access to too few details on companies' tax payments and government revenues to do this effectively. Equally, the ASA audit report has never officially been made public.

Local economic development

The multinational mining companies claim that they bring economic benefits to local communities, creating employment, importing new technologies and stimulating local economic activity. There are some local benefits, but many of the claims are mirages.

Studies by the UN's trade body, UNCTAD, show that the 'employment effects [of large-scale mining] are negligible' and that 'large-scale mineral extraction generally offers limited employment opportunities, and hence has little impact on employment, at least at the macro level'. Some estimates are that mining in Tanzania has created around 10,000 jobs in the past decade. The country's six major gold mines employ a total of 7,135 people. However, large-scale mining has made many more unemployed. Before the arrival of multinational companies, small-scale artisan miners dominated gold mining; they used simple tools and techniques, providing small incomes for a large number of people who were generally uneducated and poor. One study estimated that by the late 1990s, the sector employed between 500,000 and 1.5m people. By 2006, a report commissioned by the World Bank estimated that there were around 170,000 small-scale miners in Tanzania. Comparing these figures, large-scale mining may have made around 400,000 people unemployed.



The law allows mining companies to employ an unlimited number of foreign nationals, compared to a maximum of five in other sectors. Around 8 per cent (565 people) of those employed in the six major gold mines are non-Tanzanians. The expatriates usually occupy the management and supervisory positions and earn very large salaries in comparison to Tanzanian nationals. They are sometimes exempt from paying income tax in Tanzania.

The average pay for mineworkers in Tanzania is Shs160,000 to Shs300,000 (US\$128 to US\$240) a month. This is a high salary compared to other jobs, in areas where few other jobs are available. However, by contrast, Barrick's chief executive, Greg Wilkins, received US\$9.4m in 2006, including basic salary, bonus and stock options. It would take an average Tanzanian miner over 500 years to make this amount of money.



The companies' 'community development' spending around their mines is low in comparison to the amount of gold exported, and is unlikely to generate significant local economic impacts. AGA's spending has been averaging around US\$700,000 a year, while Barrick's appears to be somewhere between US\$3-5m across all of its mines in Tanzania.

Recommendations

Tanzania's National Development Vision 2025 seeks to transform the country from a least developed country into a middle income country by 2025, and the mining sector is envisaged to account for 10 per cent of gross domestic product GDP by then, compared to 3.8 per cent in 2006. On current trends, this is simply not going to happen. Major policy changes are needed, namely:

- Tanzania's mining law should be amended to ensure that the national economy, and Tanzanians, benefit much more from gold mining. No new mining contracts should be signed until this reform has taken place.
- The large donors, such as the British government and the World Bank, must champion this agenda. This will require pressure and monitoring from civil society organisations in Tanzania and internationally.
- Existing mining contracts must be made public and subject to parliamentary scrutiny.
- All the gold mining companies and the government should be required by law to make a full public declaration of how much they pay and receive in tax and other remittances from gold mining.
- Tanzania should join the Extractive Industries Transparency Initiative
- Mining contracts must include specific provisions for consultation with local communities. This will require a change in attitude by central government which fears a loss of control over the mining contracts.



About the authors

Mark Curtis is an independent author, journalist and consultant. He is a former Research Fellow at the Royal Institute of International Affairs (Chatham House) and was until recently Director of the World Development Movement. He has worked in the field of international development for 15 years, including as Head of Global Advocacy and Policy at Christian Aid and Head of Policy at ActionAid.

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Since 1998 he has worked with the Lawyers' Environmental Action Team (LEAT), a public interest advocacy group based in Dar es Salaam where he now serves as Program Manager for the Mining, Environment and Livelihoods Program. Between 1999 and 2002 he was a Research Fellow at the Washington DC-based World Resources Institute (WRI) where he researched environmental policy and the politics of natural resource management and their impacts on rural rights and livelihoods.

He is well known in Tanzania for his political activism. He was at the forefront of the struggle to protect coastal communities against industrial shrimp farming in the Rufiji Delta in 1997-98. Since 1999 he has been at the forefront of the struggle by communities affected by large-scale industrial mining in Tanzania. He has written, exposed and campaigned widely against the rights abuses of the large-scale mining sector and economic exploitation and social dislocation caused by it. He has personally defended hundreds of villagers and community leaders persecuted for their opposition to the way foreign mining companies operate.

Introduction

Officially, Tanzania is enjoying a gold mining 'boom'. Since the first large-scale gold mines began production in late 1998, gold mining has been the fastest growing sector of the economy and the largest source of foreign investment. Minerals now account for nearly half the country's exports, dwarfing coffee. Having produced only two only tonnes of gold in 1998, by 2005 Tanzania was producing 50 tonnes.¹ The country is now Africa's third largest producer of gold after South Africa and Ghana. By January 2008, gold had hit a record high world price – of US\$876 per ounce.²

Yet this boom exists on paper only, and ordinary Tanzanians are failing to benefit from it, both because of the country's tax laws and the practices of the leading mining companies. Our analysis, based on a careful reading of the evidence, is that the country is being plundered of its natural resources and wealth. Some African countries, like Sierra Leone and the Democratic Republic of Congo, have seen their mineral resources squandered in recent years under the veil of war. But in Tanzania this is taking place during peacetime, under political stability and with a democratically-elected government.

In this report, we analyse how Tanzania is failing to use its considerable mineral resources to tackle poverty, and ask: where is Tanzania's mineral wealth going? This is the second edition of this report, which has been updated to include the recommendations of the Bomani Commission, which was established by President Kikwete in November 2007 and reported to him in April 2008; it calls for several major changes in government policies towards the mining sector, discussed later.

The current situation is scandalous given the depth of poverty in the country. Tanzania is consistently ranked as among the ten poorest countries in the world, with around 12m of the country's 39m population living in poverty, on average incomes of Shs399,873 (US\$307) a year.³ An average Tanzanian can expect to live just 48 years, while around 400 people die every day of HIV/AIDS.⁴

Six major gold mines are operating in Tanzania with two foreign mining companies dominating the sector: the Canadian company, Barrick Gold Corporation, which operates three mines (Bulyanhulu, North Mara and Tulawaka) and is developing a fourth (at Buzwagi); and the South Africa-based AngloGold Ashanti (AGA), which operates the Geita mine, the country's largest gold deposit.

Tanzania has current proven gold reserves of around 45m ounces. At the current gold price, this means the country is sitting on a fortune of up to US\$39bn – over three times the country's annual GDP of US\$11bn, although extraction costs must of course be taken into account.⁵ If ordinary Tanzanians are to start benefiting from this potential fortune, radical changes are needed. This report identifies three severe problems, namely:

- The government is receiving very low tax revenues from gold mining
- Gold mining is subject to minimal governmental or popular democratic scrutiny and is widely perceived to suffer from the associated problem of corruption
- People in the gold mining areas are failing to significantly benefit, and many are being made poorer.



CHAPTER 1

TAX REVENUES FROM GOLD MINING

Tanzania's economy has been substantially liberalised over the past 20 years following the beginning of a World Bank-supported structural adjustment programme in 1986 (see box 1). In particular, Tanzania has reformed its investment and tax laws to attract foreign direct investment, and a range of incentives is now offered to all foreign investors. These include a number of policies that have become standard in many developing countries such as the ability to repatriate 100 per cent of profits and the ability to carry forward company losses to set these off against future tax liability.⁶ However, Tanzania is offering a further raft of incentives to attract mining companies into the country – some of which, again, are similar to other African countries. We have found no fewer than 11 areas where special incentives are being offered to mining companies in various government policies and laws. These include the following⁷:

- Tanzania's mining law stipulates a royalty rate of just 3 per cent on gold, which the authors regard as too low to ensure a fair return to Tanzanians, as discussed further below. Also, the royalty is calculated as a proportion not of the total production value of the minerals but of their 'net back value'. This is defined as the market value of the minerals minus the cost of transport and the cost of smelting or refining in-country.
- The payment of this royalty can be deferred if 'the cash operating margin' (i.e. the company's revenue minus its operating costs such as capital expenditure, interest payments on loans and depreciation costs) falls below zero.⁸ An official at the Tanzanian Revenue Authority told one of the authors that 'royalty deferral is as good as an exemption. It means an exemption'.⁹
- Mining companies pay 0 per cent duty on imports of mining-related equipment during prospecting and up to the end of the first year of production; after this, they pay 5 per cent. Mining companies also enjoy zero import duty on fuel.¹⁰
- Mining companies enjoy a right to employ an unlimited number of foreign nationals, which compares to a limit of five for non-mining companies. The Immigration Act of 1995 was changed in order to allow this.
- The law allows mining companies, unlike other companies in Tanzania, to be exempt from paying capital gains tax.

Box 1: The development of the tax regime in Tanzania

World Bank papers on the mining sector in 1989 and 1992 called for Tanzania to develop private investment in mining and attract foreign capital. In 1994 there followed the World Bank-funded Mineral Sector Development Technical Assistance Project, intended to promote fiscal reforms to develop the private sector in minerals. This project led to the government's Mineral Sector Policy of 1997, which emphasised the primary role of private companies in mining and saw the role of government as a regulator. Two new Acts were passed in 1997 covering investment, 'financial laws' and customs duties which reduced tax rates, customs duties on certain imports and provided for the ability to repatriate profits. The new Mining Act which followed in 1998 was the direct outcome of the five-year World Bank-financed sectoral reform project¹¹ and completed the architecture of laws which remain the cornerstone of the tax and mining regime in the country.¹²

- Mining companies enjoy special value added tax (VAT) relief, which includes exemption from VAT on imports and local supplies of goods and services to mining companies and their subcontractors.
- The cost of all capital equipment (such as machinery or property) incurred in a mining operation can be offset against the income from the mine in the year in which it is spent, meaning that mining companies have been able to avoid declaring any taxable income and thus the payment of corporation tax. Non-mining companies are entitled to a 100 per cent depreciation allowance only for the first five years of operations. Even the government has noted that 'the 100% capital expensing is rather excessive and distorts normal taxation principles stipulated under section 17 of the Income Tax Act, 2004. This incentive creates avenues for "tax planning" to minimize tax liability and has deprived the government of corporate revenues from the sector. The 100% capital expensing coupled with absence of ring fencing lead to perpetual declaration of huge tax losses by the mining companies even where they make commercial profits.'¹³
- Although the rate of stamp duty (the tax paid when buying property or shares) is set by law at 4 per cent, the recent contracts signed between the government and the mining companies have set the rate of stamp duty at a maximum of 0.3 per cent.¹⁴
- The law provides for the government to enter into contracts with companies that 'may contain provisions binding on the United Republic... which guarantee the fiscal stability of a long term mining project'.¹⁵ In 2004, the then Minister for Energy and Minerals, Daniel Yona, revealed that the mining agreements signed by the government and the companies included 'tax stability' clauses that precluded the raising of tax and royalty rates upwards.¹⁶ It is not known if all the recent mining contracts include this clause.
- Foreign mining companies have exclusive ownership of their operations and the minerals recovered and complete power to dispose of them as they wish, including to transfer those rights to other companies, without incurring capital gains tax.¹⁷ This means that the practice of buying and selling mining operations can be very lucrative. In 2003, for example, the Australian company, East African Gold Mines, made US\$252m by selling one Tanzanian gold mine to the Canadian company Placer Dome (which was later bought by Barrick), from an original investment of

US\$90m. Neither the government of Tanzania nor ordinary citizens receive anything from these multi-million dollar deals.¹⁸

- Mining companies are allowed to maintain their accounts in US dollars and their tax liability will then be assessed in dollars, enabling them to avoid costs associated with currency exchange. They can also open and operate foreign bank accounts and are allowed to keep money inside the country that will only be sufficient to keep their mining operations going. Thus their actual 'investment' in the country is limited.

The UN's trade body, UNCTAD, has described some tax incentives to mining companies as 'a (hidden) subsidy that developing countries are providing to TNCs (transnational corporations)'. It also notes that while these incentives to foreign firms are championed by international institutions like the World Bank, and governments in the industrialised world, 'the provision of subsidies to domestic firms is considered anathema to the proper functioning of market forces and is labelled distortionary'.¹⁹ The authors' view is that these tax incentives – especially in their extent – can indeed be considered as *de facto* subsidies.

Tax payments

'We hear every day that there is no money for development projects, for building schools and dispensaries. Yet people hear of billions of shillings lost in tax revenue... How do we explain this to people who we tell there is no money for basic services?'
John Cheyo, Chairman, Parliamentary Public Accounts Committee²⁰

Establishing precisely how much the government is earning from gold mining is difficult since contradictory figures have been given by various sources. Figures provided by the Tanzanian Chamber of Mines figures indicate that the government has received annual revenues averaging \$28.4 million a year, amounting to 10 per cent of the value of

exports – we have presumed this figure to be authoritative.

Table 1 outlines other recent figures provided by the government and the UN's trade organisation, UNCTAD. They all show that government revenues from mining are exceedingly low: ranging from just US\$13m a year to a high of US\$36m a year. As a percentage of exports government revenue is actually less than 10 per cent a year in all these other estimates. It should be noted that these figures include not only all the royalty payments and other taxes paid by the companies themselves, but also the income taxes paid by the employees of the mining companies.

AngloGold Ashanti's tax payments

Table 2, compiled from AGA's annual reports on its Geita mine, shows that the company paid taxes totalling US\$144.4m over the period 2000-07; for the period 2001-07, the company sold \$1.549b worth of gold. In the early years of production, AGA paid only around 6 per cent of its sales in remittances to government; however, this figure has shot up in the last two years with increased payments of some taxes; in 2007, the company paid over 20 per cent of its sales in remittances to government. For the period 2001-07 overall, the company has paid an average of 9 per cent of its sales to government. It should again be noted, however, that these figures include the payroll taxes paid by the mine employees; these are considerable, amounting to 15 per cent of the company's total tax contributions over the period 2000-2004, for example.²¹

Barrick's tax payments

Barrick does not state in its financial reports on its website how much in taxes and royalties it pays to the Tanzanian government. This is a serious issue in itself for company reporting standards, especially since Barrick (along with AGA) is listed as a company supporter of the Extractive Industries Transparency Initiative, the purpose of which is to improve transparency of company tax payments and

Table 1: Figures on revenue from gold mining

Source/Date	Minerals	Coverage	Govt Revenues all taxes & royalties (US\$)	Gold Exports over the same period (US\$)	Govt Revenue as a proportion of exports (%)	Govt Revenue per year (US\$)
Tanzanian Chamber of Mines, March 2008 ²²	All mining companies	1997 - 2005	255.5m	2.54bn	10.1	28.4m
Government Commissioner for Minerals, October 2007 ²³	Gold	1998 - 2006	258.8m	Not provided	n/a	28.7 m
Deputy Minister for Energy & Minerals, July 2007 ²⁴	Gold	2001 - 2006	78m	Shs3.38 trillion (US\$2.6bn)	3.0	13m
Government figures cited by UNCTAD, 2007 ²⁵	All minerals	1999 - 2005	252m	2.8bn	8.9	36m
Ministry of Energy and Minerals, 2006 publication ²⁶	All 'major mines' in the country	1998 - 2002	86.4m	Not provided	8.4	17.28m
UNCTAD, 2005 ²⁷	The six major mining companies	1997 - 2002	86.9m	890m	9.8	14.5m
Minister for Energy and Minerals, 2004 ²⁸	All minerals (gold, diamonds, tanzanite)	1997 - 2002	86.8m	895.8m	9.7	14.5m
VARIATIONS					3.0 – 10.1	13 – 36m

government receipts.²⁹ Barrick states, however, that, like all companies, it is required to provide monthly sales figures to the Ministry of Energy and Minerals and the Bank of Tanzania and also to file its financial statements with the relevant government authorities, which, it says, are public records.³⁰

Table 3, derived from government figures, shows that of Barrick's total gold sales of \$934m for the years given, its payments to government amounted to \$121m – around 13 per cent of sales.

Royalties

Royalties are calculated under Tanzanian law as 3 per cent of the 'net back' value of mineral production. Various figures have been provided on Tanzania's gold exports, two recent sets of which are outlined in Table 4 below, showing that Tanzania exported between US\$2.55bn and US\$2.90bn worth of gold in the five years from 2002-06.

If the companies were paying the full 3 per cent royalty, the government would have accrued US\$87m

Table 2: AGA's tax payments, 2000-06 (US\$m)

Year	AGA's tax payments
2000	4.1 total (of which 1.3 royalty; 1.3 withholding tax)
2001	8.6 total (of which 4.2 royalty; 1.5 withholding tax)
2002	10.7 total (of which 5.4 royalty; 1.6 withholding tax)
2003	14.1 total (of which 7.3 royalty; 1.9 withholding tax)
2004	17.6 total (of which 9.8 royalty; 7.8 in taxes, leases and duties)
2005	15.9 total (of which 7.9 royalty; 6.2 taxes; 1.7 in leases and duties)
2006	25.85 total (of which 5.6 royalty; 1 corporation tax; 11 import duties; 8.25 in non-recoverable VAT and other indirect taxes)
2007	47.6 (of which 6.0 royalty; 26.1 other taxes and duties; 3.0 'corporate taxation/provision'; 5.3 VAT; 7.2 employee taxes)

Sources: For payments to government: For 2004-06: Annual report 2006, p.13, www.anglogoldashanti.com; 'Report for the quarter and six months ended 30 June 2007', p.64, www.anglogoldashanti.com; Country reports on Tanzania: Geita for 2007, 2006, 2005 and 2004, www.anglogoldashanti.com. For 2000-2003: Company figures provided in Siri Lange, Benefit streams from mining in Tanzania: Case studies from Geita and Mererani, CMI, Norway, 2006, Table 9, p.44. For sales: Government of Tanzania, Report of the Presidential Committee to Advise the Government on Oversight of the Mining Sector, Volume 2, section 2.9

in revenues, or an average of US\$17.4m a year (using source two in table 4). Indeed, figures reported in the Tanzanian press indicate that the companies have actually been paying about this amount.³¹ However, our argument is that the royalty rate is too low to remit a fair share of the income earned by gold mines to Tanzanians (see also the 'international comparisons' section below). In the absence of declared profits, royalties become a very important means of revenue from mining operations, and which are relatively easy to collect from companies. If the royalty rate were raised to, say, 5 per cent, the government would have accrued \$145m over these five years – or \$29m a year. Over the five years, it would have earned an extra £58m.

Since Tanzania's revenues from gold exports are so low and derived only from taxes and royalties,

not from a share in the gold mining itself, it is questionable whether exports can be described as 'earnings' as government and donor statistics do. Gold exports as a percentage of all exports have steadily risen, from 34 per cent in 2001 to 43 per cent in 2004, to 45 per cent in 2006.³² These increases are mainly due to record-breaking gold prices in recent years, but this matters little if it does not translate into more money in government coffers, and ultimately into development benefits for Tanzanian citizens. The increase in mining's contribution to Tanzania's GDP has only modestly risen in the past few years despite the supposed 'boom' – from 2.0 per cent in 1998, when the large-scale gold mines began production, to 3.0 in 2003 to 3.8 per cent in 2006.³³

Table 3: Barrick's remittances to government and sales from three gold mines

	Bulyanhulu	North Mara	Tulawaka
Payments to government (\$m)	83.46 (of which 15.18 royalty; 68.28 other taxes) (2001-05)	30.5 (of which 9.58 royalty; 20.92 other taxes) (2002-05)	7.2 (of which 2.0 royalty; 5.2 other taxes) (2005-06)
Gold sales over same period (\$m)	523	271	140
Payments to government as percentage of gold sales	15.9	11.2	5.1

Source: Government of Tanzania, Report of the Presidential Committee to Advise the Government on Oversight of the Mining Sector, Volume 2, sections 2.5.1 – 2.5.4 and 2.9.³⁴

Corporation tax and company profits

'Despite the fact that the major gold mines have been operational in Tanzania for over five years now, and the gold price in the world market has recorded a steady rise over the time, none of the mining companies has declared taxable income... They [the gold mining companies] claim to have accumulated heavy losses, despite a steady rise in the world market gold price since 2002. Paradoxically, the same companies commit large additional capital expenditure.' Ministry of Energy and Minerals' review of mining development agreements and the fiscal regime, September 2006³⁵

Corporation tax is one of the major ways a country can benefit from mining and is set at 30 per cent of profit under Tanzanian law. Throughout 2007, however, government ministers were saying that not a single gold mining company had paid corporation tax. The Commissioner for Minerals, Dr Peter Kafumu, told the media in March 2007 that 'corporate tax will be paid when they [the mining companies] make profit, otherwise they cannot pay'.³⁶ The tax incentives given to companies enable them to start paying corporation tax only when they have recouped their initial investment (especially through their ability to carry forward their losses and offset their capital expenditure against tax) and have enabled them to avoid liability for income

tax. 'It's like a tax holiday but we don't call it that', an official at the TIC told one of the authors.³⁷

However, AGA, according to its accounts, paid US\$1m in corporation tax for 2006 and also made provision for corporation tax in 2007, as noted in table 2 above. The fact that corporation tax is usually paid late may explain the discrepancy between these payments and the ministers' statements.

Both AGA and Barrick company reports show that these two companies are making *gross* profits (see glossary for a definition) in Tanzania. The Geita gold mine is AGA's only mine in Tanzania and is one of the biggest open pit mines in Africa which in 2006 produced 308,000 ounces of gold.³⁸ Table 5, derived from various of AGA's annual reports, shows that the company has made gross profits totalling US\$93m from Geita between 2002 and mid-2007.

Barrick company reports show that its Tanzanian mines provided 'income' (defined as sales less cost of sales and amortization, i.e. depreciation) of US\$97m since 2004, see table 6.

The specialist mining journal, *Mineweb*, has reported that in 2006 the Tulawaka mine registered a net income

Table 4: Value of gold exports, 2002-06

	Source One US\$m (Shs bn)	Source Two US\$m
2002	230 (260.8)	341
2003	401 (455.6)	503
2004	498 (565.8)	629
2005	577 (654.7)	655
2006	852 (968)	773
Total 2002-06	2,558 (2,904)	2,901
Percent rise 2002-06	370	226

Source One: Government of Tanzania, Ministry of Industry, Trade and Marketing, *Industrial sector performance in Tanzania, August 2007, Table 2, p.2.*

Source Two: Government of Tanzania, Ministry of Planning, Economy and Empowerment, *macroeconomic policy framework for the Plan/Budget 2007/08-2009/10, May 2007, Table 6, p.24³⁹*

of US\$28.2m and it expected to yield a net income of US\$58.3m in 2007, using data from Northern Mining, Barrick's joint venture partner at the mine.⁴⁰ Barrick notes in its annual report for 2006 that its Tulawaka mine 'is an excellent example of the value that small projects can add to the bottom line'.⁴¹

This research thus suggests that AGA's and Barrick's declared *gross* profits combine to make US\$190m. However, the companies have been able to avoid declaring a taxable income largely because of Tanzania's significant tax concessions, most importantly that they are allowed to deduct their capital expenditures from gross profits. As Barrick has stated: 'because of tax relief permitted under law (capital deductions), mining entities normally end up with nil assessments in the initial years of operation. This reflects the simple reality that if no profit is made, no corporate tax is payable.'⁴² There are also no ring-fencing restrictions for mining companies, which allows them to combine costs and income from one mine with those of other

mines when determining the companies' tax liability. As the Ministry of Energy and Minerals' review of the mineral development agreements signed with the companies noted in its September 2006 Report, 'in the absence of the ring fencing principle, heavy capital expenditure incurred in one project would adversely impact on the profitability of another project and thus defers payments of corporate (income) tax'.⁴³

The parliamentary PAC presented a report to parliament in February 2007 noting that mining companies declared losses of US\$1.045bn between 1998 and 2005 – a sum equivalent to a quarter of the national budget for 2006/2007. The chair of the PAC, John Cheyo, put the losses down to the capital expenditure and depreciation allowances and weak documentation of records by the Ministry of Energy and Minerals.⁴⁴

The *Sunday Citizen* newspaper employed auditors based in the northern city of Mwanza to conduct a review of some gold mining company accounts using

Table 5: AGA's profit and loss from Tanzania, 2000-07 (US\$m)

	Profit (loss)	Taxes paid (US\$m)
2000	n/a	4.1
2001	n/a	8.6
2002	20	10.7
2003	34	14.1
2004	23	17.6
2005	9	15.9
2006	(2)	25.85
2007 (first half)	9	n/a

* Defined in company reports as 'attributable adjusted gross profit' for 2004-07 and 'adjusted operating profit' for 2002-03.
 Sources: For 2004-06: Annual report 2006, p.13, www.anglogoldashanti.com; 'Report for the quarter and six months ended 30 June 2007', p.64, www.anglogoldashanti.com; Country reports on Tanzania: Geita for 2006, 2005 and 2004, www.anglogoldashanti.com. For 2000-2003: Company tax figures provided in Siri Lange, Benefit streams from mining in Tanzania: Case studies from Geita and Mererani, CMI, Norway, 2006, Table 9, p.44. For 2002 and 2003 profit figures, 'Review of operations: East and West Africa', www.anglogoldashanti.com

Table 6: Barrick sales and income (loss) from Tanzania, 2004-7 (US\$m)

	Sales	Income*
2004	135	1
2005	179	(13)
2006	409	98
2007 (first half)	199	11
Total	922	97

* Defined in company material as sales less cost of sales and amortization.
 Source: Annual review 2006, p.88, www.barrick.com; 'Barrick reports strong Q2 earnings of US\$396m', Press release, 1 August 2007, p.43, www.barrick.com

reported data. It claimed that some gold mines were 'inflating their production costs per ounce, at the same time declaring lower gold price [sic] at the world market, in order to post a minimal gross profit, therefore denying the government billions [of Tanzanian Shillings] in corporation tax'. In 2005, for example, one company (the audit didn't state which) reported a gross profit of Shs11.7bn (US\$9m) and turnover of US\$237m; according to the audit, however, the gold price prevailing at the time should have produced a turnover of US\$261m, and a gross profit of Shs31.2bn (US\$24m). A spokesperson for AGA was quoted as denying that the company understates profits to avoid taxes; rather, the company operates a 'hedging strategy' to protect it from gold price volatility, which means it sometimes receives more, and sometimes less, than the gold spot price prevailing at the time.⁴⁵

Alleged tax evasion

In 2003 the Tanzanian government contracted an American company, Alex Stewart Assayers Government Business Corporation (ASA), to conduct an audit of the large gold mines in the country, to check if their declarations on their production and financial position were correct. ASA's report was kept secret, with the government refusing to publish it, but was leaked to and covered by the *Sunday Citizen* newspaper in 2006 and has been seen by the authors.⁴⁶ Though the ASA report has never been made officially public by the government, it has been widely reported in the media. It states that the gold mining companies were overstating their losses with the result that their tax liabilities to the government were reduced. Four companies were alleged to have over-declared their losses by a total of US\$502m, meaning that if true the government would have lost revenues of up to US\$132.5m. As outlined in Table 7, the ASA report suggested that AGA's Geita mine declared a tax loss of US\$193m while its actual loss was said to be US\$35m. Barrick's Bulyanhulu mine, according to the ASA report, declared a loss of US\$760m, while its loss determined by the audit was US\$589m. The ASA

Box 2: Barrick

Barrick is the world's largest gold producer, operating 27 mines and various other exploration projects on five continents. It has the largest gold reserves in the industry – 123m ounces of proven and probable reserves - and in 2006 produced 8.64m ounces.⁴⁷ It reports that it has 'the industry's strongest credit rating, with a cash balance of US\$2.6bn'.⁴⁸

Barrick made profits of US\$1.1bn in 2007, which followed US\$1.51bn in 2006, US\$401m in 2005 and US\$248m in 2004 – its profits have risen more than four-fold in four years. This increased income comes partly from increased gold prices – the company reports that the gold price it received in the second quarter of 2007, for example, was US\$642 per ounce, 62 per cent higher than in the first quarter.⁴⁹

audit covered four mines: Barrick's Bulyanhulu mine; AGA's Geita mine; the North Mara mine then owned by Placer Dome, which was later bought by Barrick; and the Golden Pride mine owned in a joint venture by Australian company Resolute and Mabangu. The ASA report only covered the period from the inception of the mines (in Bulyanhulu's and Geita's case since 1999) until 2003. The alleged discrepancies are summarised in table 7.

The audit's analysis was that AGA managed to exaggerate its losses by 'early charging' of a tax incentive providing for 15 per cent additional capital allowance on unredeemed capital expenditure and also by 'improper calculation of the [tax] allowance base by not deducting taxable profit/gain' (See glossary for further explanation). ASA also stated that 'a long list of documentation' substantiating the

Table 7: Companies alleged over-declarations of losses, US\$m

	Declared tax loss	Declared tax loss Tax loss (profit) determined by ASA audit	Amount of tax loss over-declared	Tax liability determined by audit
Bulyanhulu	760.3	589.6	170.7	51.2
Geita	193	35	158	49.8
North Mara	93	27	66	19.8
Golden Pride	68.4	(38.9)	107.3	11.7
Total			502	132.5

Source: Adapted from Alex Stewart Assayers report, 'The evaluation of the gold auditing programme', mimeo, p.5

amount of investment and production costs claimed was 'missing'.⁵⁰

According to the ASA report, Barrick over-declared its losses at its Bulyanhulu mine by having 'erroneously claimed' the 15 per cent additional capital allowance and, as with Geita, by providing 'unsupported capital expenditure' for its declared investment and production costs. The ASA report also stated that 'from the start [the mine] resisted the audit and for long periods it frustrated the audit work by providing the audit team with information that was incomplete and sometimes incorrect'.⁵¹

However, the audit also stated that Tanzania's tax losses were even greater than this. It found that '6,762 documents are still missing preventing the Auditor from confirming if royalties with an estimated value of US US\$25m have actually been paid for 939 past shipments'. There are outlined in Table 8.

ASA noted that it was hindered by 'the persistent reluctance of the mining companies to cooperate with the Auditor' and the companies' failure to keep adequate documentation on its financial records in

Tanzania. This meant that 'these mining companies are in default of the law, and failure to cooperate could be interpreted as a strong desire to hide faulty declarations'.⁵²

The audit also aimed to uncover whether the expenditure declared by the companies for environmental rehabilitation was correct and if they had provided enough funds to provide for the future environmental management of the mines. It claimed that they had not, and that their liabilities in these respects were deficient by over US\$50m, of which AGA's Geita mine alone accounted for US\$37m.⁵³

The allegations of tax evasion have been widely reported in the Tanzanian media.⁵⁴ Since the ASA report was made public, however, no new measures have been taken to ascertain whether the figures provided by the companies are correct and if not, to ensure that this alleged massive loss to the nation is recovered. A recent report by the Ministry of Energy and Minerals stated that the Tanzania Revenue Authority (TRA) should ensure that 'tax dues from the mining companies are collected and remitted to the government'.⁵⁵

Table 8: Alleged unconfirmed royalty payments

	Shipments analysed	Missing documents	Estimated royalties with no proof of payment (US\$m)
Bulyanhulu	317	4,252	3.18
Geita	284	945	17.86
North Mara	91	377	0.74
Golden Pride	177	948	3.19

Source: Adapted from Alex Stewart Assayers report, 'The evaluation of the gold auditing programme', mimeo, p.10

Tanzania's lost income

So far, we have shown that the government has received only around \$28m a year in all taxes and royalties from the mining companies. Its lost income streams include:

- US\$58m over the past five years by not setting the royalty rate at, say, 5 per cent (as, in fact, is now recommended by the government-appointed Bomani commission; see below)
- US\$132.5m of tax for the years 1999-2003 if the losses stated in the ASA audit are correct, together with US\$25m 'unconfirmed' royalty payments and US\$50m failed to be set aside for environmental rehabilitation – a total of US\$207.5m.

This alone produces a total of US\$265.5m lost income. This is a very conservative figure: it does not cover all the gold mining companies, or all figures for the past five years (since these are not publicly available); neither does it cover the financial costs of other tax concessions such as VAT exemption, which are extremely difficult to estimate; finally, many of these figures rely on company data which, if the ASA allegations are true, are questionable. Lost income is therefore likely to be much higher.

The extra revenues could provide a huge boost to tackling poverty in Tanzania. For example, the government's budget for 2007/08 envisages spending US\$48 per person on development expenditure such as education, health, infrastructure and water. Lost revenues of US\$265.5m could pay for 5.5m people to be provided with such services. The amount is larger than Tanzania's entire health budget for 2007 or could fund the building of 44,000 secondary school classrooms.

But there is an even bigger question to ask: are Tanzanians, who are the ultimate owners of the gold, receiving their fair share of the booming international commodity prices? Given that around 10 per cent of gold exports return to the government – and that these exports amount to around US\$3bn over the last ten years - where exactly is the other 90 per cent, around US\$2.7bn? There is much uncertainty about these figures, which highlights the need for much greater scrutiny and transparency in Tanzania's mining sector. In response to the first edition of this report, the TCME provided figures claiming that for each ounce of gold exported the revenue is distributed as follows⁵⁶:

- 57 per cent – production costs to produce that ounce of gold
- 11 per cent - paid as other taxes to the government
- 3 per cent - paid as royalty to the government

The companies' views on the Alex Stewart Assayers' report

The Tanzania Chamber of Minerals and Energy (TCME) wrote in response to the first edition of this report: 'We have mentioned many times before and wish to reiterate here that none of the mining companies audited has ever seen an ASA report. It is an essential element of audit procedure that an auditee be given the opportunity to explain any apparent anomalies found during an audit. This has unfortunately never happened and given rise to a lot of speculation on the subject. The report is still a matter of discussion between the government and respective mining companies'.⁵⁷

In response to questions to AngloGold Ashanti by the authors on the company's response to the ASA report, AGA stated that it was 'unbecoming for a respectable company like AngloGold Ashanti to react to unsubstantiated press accusations. The company position was and remains we need to be furnished with the auditing findings or queries to be in a position to react [sic]'.⁵⁸ AGA's Investment Manager has said: 'We do not understate profits to avoid taxes. Our results are audited and as a company listed on several stock exchanges around the world, including Johannesburg and New York, our financial statements are subject to intense scrutiny, as well as by the tax authorities of the many countries where we operate'.⁵⁹

Barrick stated in response to the first edition of this report: 'None of the mining companies concerned, including Barrick, have [sic] been provided with a copy of the ASA report by either the auditor or the Ministry of Energy and Minerals. It is an essential element of proper audit procedure that an auditee be given the opportunity to explain any alleged anomalies. All the companies concerned have requested copies of the ASA audit report submitted to the government so as to be able to respond accordingly. However, to date, these requests have not been met'.⁶⁰

- 10 per cent – repayment of loans and interest
- 11 per cent – paid to shareholders (over the life of the mine)
- 7 per cent – capital investment on expansion and exploration
- 1 per cent – community development projects and training

Thus the TCME claims that the government receives 14 per cent of the value of gold produced (11 per cent in taxes and 3 per cent in royalty). Yet elsewhere in the same document the TCME states:

'Between 1997 and 2005 our members produced gold worth USD 2.54 Bn. Statutory taxes and other contributions paid to government for the same period amounted to US\$255,526,893, equivalent to 10% of the value of the gold produced. The 3% royalty element amounted to USD 74.7 million'.

Since the 3 per cent royalty payments are included in the figure of \$255 million in revenues, the government appears to be receiving 10 per cent of the value of the gold, not 14 per cent as claimed.

Barrick has also provided the same breakdown of revenues from gold, similarly stating that production costs amount to 57 per cent of each ounce of gold sold.⁶¹ Yet the TCME and Barrick documents provide markedly different prices for gold - \$900 an ounce in TCME's document and \$600 in Barrick's, meaning that the TCME estimates that it costs \$513 to produce each ounce of gold while Barrick states it costs \$342. The authors fail to understand why production costs would remain at the same percentage even when the price of gold is much higher. Rather, when prices are high, it is, obviously, much more likely that companies will have higher earnings.

The government's mining review – and its forked tongue

The Tanzanian government has pursued a decidedly ambivalent policy towards the mining sector and companies. On the one hand, some ministers have openly said the country is failing to benefit adequately from gold mining while the President has accused the mining companies of robbing the nation and has instigated a review of mining contracts. On the other, ministers have continued to sign contracts that are immensely favourable to the companies and which demonstrate a business-as-usual attitude.

In his inaugural address to the nation in December 2005, President Kikwete outlined the need for Tanzania to benefit more from mining, and during his May Day speech in 2006, promised to review all mining contracts to ensure that the 'nation is benefiting from the richest minerals available in most parts of the country'.⁶² The same month, a committee was formed to review the Mineral Development Agreements (MDAs) signed with the companies.⁶³ In September 2006 the review committee submitted its report to the government, recommending both extensive changes to the mining and fiscal laws relating and the renegotiation of the various mineral development agreements signed with the mining companies. Yet, save for minor changes made to the MDAs with Barrick, discussed further below, none of the recommendations has been implemented.



Many proposals for substantive reforms were rejected at the very beginning of the review. It was reported in July 2006, for example, that several proposals were on the table in the government's consultation with the companies. These included state participation in developing infrastructure at the mines; corporation tax to be paid at the start of production and not after recovering investment costs; compensation for people displaced by mining to be pegged to the value of mineral exploitation on their land; and mining companies to contribute to a government fund for environmental rehabilitation.⁶⁴ These proposals never got off the ground and were not further pursued by the government for reasons that remain unclear.

The government's review process has hitherto resulted in only two positive changes to the mining sector generally. One is that companies are now paying up to US\$200,000 to the district councils where they operate, regardless of whether the company declares a profit or loss. This is often reported as a straight

US\$200,000 payment, yet the MDAs - including the Buzwagi contract (see section below) - make clear that the figure 'shall not exceed' US\$200,000. This sum is anyway miniscule, yet remains the only direct contribution that the mining companies are required to make to the local communities where they operate. The US\$200,000 payment is not a new requirement – our review of five MDAs recently-obtained by the authors reveals that it forms part of the terms of all MDAs signed between the government and mining companies since the early 1990s.⁶⁵

The second improvement is the removal of the 15 per cent capital allowance on unredeemed capital expenditure from the Buzwagi mining contract. This allowance helped companies delay paying corporation tax by declaring high losses – as was reported in the ASA audit - and meant that the unutilised capital expenditure not offset against income in the year is inflated by 15 per cent when carried forward. The Commissioner for Minerals, Peter Kafumu, has said that 'this clause was put in the contracts as incentive to attract investors through advice from World Bank [sic]'.⁶⁶ A senior official from the Tanzanian Chamber of Mines said: 'We didn't ask the government to give it to us... We knew that the clause was really hurting the country's economy by denying it more taxes from the mining industry, but our hands were tied.'⁶⁷ The allowance was first removed by the Finance Act of 2001 but re-introduced the following year after mining companies protested. The removal is in any case small consolation to Tanzania since, in terms of the 2002 Finance Act that re-introduced the allowance, the removal relates only to MDAs signed after 1 July 2001, which applies to only two MDAs out of seven signed since 1990.⁶⁸

There has been a third development, relating to Barrick only. Following negotiations with the government in 2007, Barrick reportedly 'agreed' to pay Shs9.1bn (around US\$7m) to the government each year in addition to other taxes and royalties. It is a mystery how this figure was decided; Barrick has reportedly

described it as a 'goodwill tax'.⁶⁹ Even worse, Barrick states that 'the payment of this amount will be reviewed by both parties should economic conditions deteriorate'.⁷⁰

In May 2007, the President said during a ten-day tour of Mwanza: 'They [the mining companies] have been robbing us during the past decade, taking up to 97 per cent of all the earnings from the mineral resources... We have been getting only 3 per cent of the total revenues generated from this industry'.⁷¹ Then in November 2007, the President announced the formation of another committee to further investigate the nature of the mining laws and contracts. Known as the Bomani Commission, led by former judge Mark Bomani, it reported to the President in April 2008. It stated that government tax incentives were 'excessive', thus depriving the country of income, and called for a number of changes, notably:

- the gold royalty rate should be raised from 3 to 5 per cent, and should be calculated as a proportion of gross sales, not net-back value
- of the royalty payments, 3 per cent should go to the villages around the mine, 10 per cent to the district council near the mine and 7 per cent to other districts in the region where the mine is located
- the government should have a 10 per cent shares in every mining company
- work permits should be issued to expatriate employees only where absolutely necessary such expertise is not locally available

What explains the government's ambivalent strategy towards the mining companies? First, there are differences between government departments, with the Ministry of Energy and Minerals being supportive of the companies while some others want to see more reform. Ministers also need to placate an increasingly critical population by at least being seen to take on the companies.

Box 3: Don't mention the taxes, or how the donors keep silent

Recent press reports have accused Western governments of actively thwarting Tanzania's limited efforts to change the generous treatment given to mining companies under the Income Tax Act of 1973.⁷² These accusations have been boosted by a recent letter to the Chairman of the Mineral Sector Regulatory System Review Committee, by the Minister for Industries, Trade and Marketing, Basil Mramba, who relates what happened when, in 2004, the government repealed the Income Tax Act of 1973 and replaced it with the 2004 Income Tax Act. He notes: 'During preparations (for enacting the 2004 Act) several foreign diplomats based in the country formed a committee to examine the proposals for the (Income) Tax Bill, which is rather unusual. As the (then) Finance Minister I met twice with them to hear and respond to their objections on the method for taxation of mining incomes as had been proposed by an expert from Oxford University, United Kingdom. Eventually the Cabinet decided to shelve an entire portion of that Bill that related to mining to be reviewed at a more auspicious occasion.'⁷³ Mramba did not explicitly state the nature of the diplomats' objections, nor did he name them or the academic expert but we assume that the concerns were about higher taxes affecting company profits and, consequently, the dividends payable to home country's shareholders. Given that donors contribute more than 40 per cent of the government's annual budget, the government's hand in dealing with them is often very weak.

Currently, donors appear to be silent on the issue of low gold mining taxes. Yet the governments of Britain, Canada and South Africa have a particular responsibility when it comes to gold mining in Tanzania. AGA and Barrick are based in South Africa and Canada respectively; AGA's largest shareholder was until recently the British corporation, Anglo American. Britain is Tanzania's largest bilateral donor, spending £120m on aid in 2007/08, and the largest overall investor in the country with investments worth about Shs1.4 trillion (US\$1.1bn). It is also a major international proponent of the Extractive Industries Transparency Initiative.⁷⁴ However, none of these governments has, to the authors' knowledge, raised serious concerns about the favourable tax treatment provided to the mining companies. Even after the ASA report was made public, neither the British nor Canadian government made any public pronouncement, according to the authors' information.

The World Bank is currently advising the Tanzanian government on tax issues in a 'tax modernisation project', approved in June 2006. The project costs US\$33.6m, of which Britain's Department for International Development, the Danish government and the European Union are among the contributors. The Bank states that 'the modernisation project will assist the government of Tanzania to increase tax revenues *without increasing tax rates*' (author's emphasis). The project involves assisting the Tanzanian Revenue Authority in increasing its efficiency and 'broadening the tax base', and aims to 'improve the legal framework'. Analysis of the project outline shows an extensive, detailed, three-year programme (running from mid 2006 to mid-2009) involving plans to procure new computer equipment, run training programmes and introduce programmes such as an 'automatic fingerprint identification system' - everything, it seems, apart from actually raising taxes.⁷⁵

But there are two more fundamental reasons. First, there is a fear that too much reform will upset the companies, the donors and the international institutions, none of which is championing significant, or indeed any, fiscal reform. The government is to a large extent hamstrung by arguments about 'international competitiveness' and the over-riding priority to continue to attract foreign investment. Second, there are concerns in Tanzania, though no evidence, that some government officials relating to the mining industry may be prone to corruption (see also section 2 below).

The Buzwagi contract. Reform? What reform?

A 'development agreement' between the Tanzanian government and Barrick was concluded in February 2007 for a new mine at Buzwagi in Shinyanga region near its Bulyanhulu mine in the north of the country. Barrick describes the mine as a US\$400m investment that will produce 250,000 ounces of gold per year in the first five years of production.⁷⁶

The Buzwagi contract, like previous mining agreements between the government and the companies, has not officially been made public and is secret. The Commissioner for Minerals, Peter Kafumu, has even said that possession of the document, which bears a confidential stamp, is 'illegal'.⁷⁷ Nevertheless, it has been leaked to the media and widely reported on, and the authors have seen copies. The agreement was signed by the government in the middle of the supposed review of mining contracts and after the President had said that no new mining agreements would be signed until the review had been completed.⁷⁸ Moreover, it is of extraordinary benefit to Barrick while offering decidedly little to Tanzanians.⁷⁹

- The agreement commits the government to maintaining the current tax levels in Tanzania 'throughout the life of the project'. (Preamble, section 5). This refers to an initial period of 25 years 'with an option for the company to renew the same upon the same terms and conditions for a further period of twenty five years'. (Article 3.2). Another clause states that if the government does change these terms unilaterally and

puts the company 'in a worse off situation' than at the time of signing the contract, 'the government shall in consultation with the company take necessary steps to ensure that the company's rights or interests are not eroded or otherwise materially diminished' – i.e. compensation will be provided (Article 11.1). These tax stability agreements are common to other mineral development agreements signed between companies and government in Tanzania. Yet they undermine the democratic rights of future Tanzanian governments to manage the economy in accordance with the mandate given to them by the Tanzanian people.

- The company will pay only a small amount in taxes other than corporation tax and royalties, such as an amount in local government taxes and rates that 'shall not exceed' US\$200,000 each year (Articles 4.1 and 4.3) while being exempt from paying VAT. The contract also puts maximum values on the amount the mine will pay, for example, for road tolls (with the limit set at US\$200,000 a year). Consistent with the general mining laws, Barrick will be able to repatriate all profits from the mine (Article 5.1)
- The contract allows the company to deduct 80 per cent of its capital expenditure from its tax liability. This is actually lower than the current 100 per cent deduction allowed to mining companies under the Income Tax Act, 2004 and will apply 'provided that the government shall have made legislative change to ensure that this provision is applicable under the laws of Tanzania'. (Article 4.7) Thus unless the government changes the current law, Barrick will continue to enjoy the 100 per cent capital expenditure write-off. Although this clause may provide the government with more revenues, it is surely extraordinary for a government to commit to changing legislation in a document signed with a single company, without first presenting such a proposal to parliament.
- The contract states only that Barrick 'will give preference' to buying Tanzanian, as opposed to foreign, goods and services. Such preference will be given 'provided such

goods and services are of internationally comparable quality, are available at required time [sic] and quantity and are offered at competitive prices on delivered basis [sic] in Tanzania'. There are no quantitative commitments, for example for goods and services which are produced in Tanzania and which could be easily be sourced there. (Article 7.1)

- There are no limits placed on the number of expatriate staff that can be employed; indeed, the contract states that 'the government will expeditiously grant' applications for work permits submitted by the mine. (Article 8.3) Expatriate staff will be entitled to import their personal and household effects, including one automobile, free of import duty and other taxes. They are also entitled to 'export freely from Tanzania' all of their salary. (Articles 8.4 and 8.5)
- The contract commits the government to enable the company 'to acquire on reasonable terms and within a reasonable time.... rights to, or in respect of land and water as are reasonably necessary' for the mine. (Article 9.1) It also requires the government to 'assist the company in its effort' to make use of land which may be lawfully owned or occupied by others. (Article 9.2)

What makes the Buzwagi contract even more worrying is that it was apparently *not* rushed through without proper consideration by Ministers but was the subject of lengthy discussions. A Barrick spokesperson has been quoted as saying that 'we underwent thorough negotiations spanning a period of about eight months, where we were asked to give very detailed presentations to the government's advisory committee on minerals'.⁸⁰

The Minister for Energy and Minerals, Nazir Karamagi, has told Parliament that the Buzwagi gold mine will yield US\$198.9m in royalties and other taxes over a ten year period, meaning around US\$20m per year. He also said that the mine would pay an additional US\$50.3m in payroll taxes over the ten years – this revenue is about 16.6 per cent of total turnover from the mine, based on current gold prices.⁸¹ However, none of these substantial

sums forms any part of the Buzwagi contract that the authors have seen.

International comparisons

Most African countries, notably those with very liberalised mining tax regimes, are benefiting only marginally, if at all, from mining.⁸² Over the past two decades the World Bank has in effect rewritten most African countries' mining laws, reducing taxes and favouring private investors, arguing that each must be 'internationally competitive'. However, some governments have finally woken up to the fact that they have got a bad deal and are now rewriting mining legislation and re-considering tax rates. Tanzania's mining tax laws are similar to some other major African mining states in some respects but very different in others:⁸³

- Tanzania's royalty rate of 3 per cent for gold is at the lower end of the 3 to 12 per cent sliding scale royalties levied on gold production in Ghana, and the 3 to 8 per cent royalties that gold mining companies can negotiate to pay in Mozambique. Botswana levies a 5 per cent royalty on gold production. African governments must together push to increase royalties and other taxes; otherwise they will continue to be victims of the 'international competitiveness' argument.
- Tanzania's VAT laws are similar to those other African countries which also exempt mining companies from paying VAT on imports and local supplies, such as Ghana. However, Botswana applies a 10 per cent VAT rate and there are no special VAT provisions for mining companies in Kenya and Uganda, although mining agreements in Kenya are likely to provide VAT relief on some equipment and VAT deferment applies to most plant and machinery imported into Uganda.
- Other aspects of Tanzania's fiscal regime for mining are broadly similar to other countries. Most countries' corporation tax rates are similar at between 25-30 per cent; most countries allow losses to be carried forward against tax; many allow 100 per cent capital deductions; and several countries such as Botswana

and Ghana similarly allow zero customs duty on mining equipment while others, such as Kenya and Uganda do not provide automatic exemptions.

One country that can boast significant success in using mineral resources to boost development is Botswana, and it practices a very different tax regime overall to Tanzania. Diamonds have accounted for four-fifths of Botswana's exports in recent years while the country has registered one of the world's fastest economic growth rates. UNCTAD notes that 'as a result of mineral-led economic growth, the country has progressed from being one of the poorest countries in the world to becoming an upper-middle-income developing country, and it is the only country ever to have graduated from LDC status'.⁸⁴

Botswana does operate a fairly liberal investment regime that encourages foreign investment. Yet it has a diamond royalty rate of 10 per cent (of the gross market value of the minerals) while mining contributes 50 per cent

of government revenue, along with 40 per cent of GDP. Botswana, unlike Tanzania, does not allow tax to be filed in US dollars⁸⁵, and its Mining Act gives the government a mandate to acquire a 15-50 per cent stake in major mining projects. Thus the government retains a 50 per cent stake in the De Beers Botswana Mining Company (Debswana). In Tanzania foreign firms have been guaranteed 100 per cent ownership of mines.

The state of the gold reserves

The country's current proven reserves of 45m ounces are presently being extracted at a rate of over 1.6m ounces a year for five of the six major mines, as table 9 shows. On this basis, total reserves may last 28 years. It is likely that more proven reserves will be found: the Tanzania Chamber of Minerals and Energy has noted scientific studies claiming that Tanzania may possess 1,000m ounces of gold.⁸⁶ The point is that the country needs to benefit much more deeply now from its gold resources; and also put in place a better fiscal regime to benefit over the coming decades.

Table 9: Current reserves and mine life

Mine	Proven gold reserves (million ounces)	Current annual production (ounces)	Lifespan of the mine (years)
Buzwagi ⁸⁷	2.6	250,000	10 **
Bulyanhulu ⁸⁸	11.2	330,000	34
North Mara ⁸⁹	3.3	372,000	9
Tulawaka ⁹⁰	0.33	98,000	3.4
Geita ⁹¹	14.7	538,000*	20 **

* average for past three years

** Company statements on mine-life

CHAPTER 2

DEMOCRACY AND TRANSPARENCY

That the government, pressed by the World Bank and Western donor governments, has been able to impose quite such a favourable tax regime in the country is partly down to inadequate democratic scrutiny. Several key aspects of mining in Tanzania remain shrouded in secrecy. The Tanzanian parliament has, for example, never seen any of the contracts signed by the government with the mines – except for the Buzwagi contract, which was leaked to the media. The Mineral Development Agreement (MDA) signed by the government with AGA in October 2007 remains secret and we have been unable to discover its contents. The government has repeatedly refused to make these agreements public.⁹² Thus elected representatives have no ability to influence the specific terms under which foreign mining companies extract the country's most lucrative resource.

The parliamentary PAC is supposed to scrutinise the government's accounts, yet it has access to few details about exactly how much the mining companies are paying in taxes and royalties and what the government revenues from these are. The ASA report has never officially been made public and the whole auditing process – which was meant to increase company accountability – was shrouded in secrecy from the beginning. ASA's Chief Executive, Dr Enrique Segura, has said: 'We are very happy and proud of the job we have done in Tanzania. But I can't tell you more about it. This is because the auditing contract was laced with confidentiality clauses that virtually ban the auditors from publishing their findings'.⁹³

In August 2007, the MP for Kigoma North, Zitto Kabwe, tabled a private motion to press parliament to investigate the motive behind the decision by the Energy and Minerals Minister, Nazir Karabagi, to sign the Buzwagi agreement with Barrick at a time when the government had declared it would not sign any new agreements until the government review had been completed. A heated debate in parliament followed, after which Kabwe was actually suspended for two consecutive sittings for, allegedly, falsely accusing a senior cabinet minister of lying by insisting that the 15 per cent capital allowance clause, noted above, had been removed without parliamentary consent. The incident indicates a willingness to silence those calling for greater scrutiny over government policy and bodes ill for Tanzanian democracy.⁹⁴

Some journalists and activists who report on corruption and mining have been the subject of pressure and even death threats from unspecified sources. One of the authors of this report has had his home and office raided by police, was arrested and detained in police cells and has faced sedition charges in court since May 2002. One



prominent newspaper editor told one of the authors that its editors had been subject to threats to have individual journalists fired and offered bribes. 'It's been continuous since we've been working on the mining industry', the editor told us. The paper had also lost a lot of revenue from advertising withdrawn by the government.⁹⁵ Mbaraka Islam, a reporter with another newspaper, *This Day*, who writes on mining and corruption and exposed the Buzwagi contract, was issued with a death threat on his mobile phone.

The Ministry of Energy and Minerals is currently failing to adequately monitor, audit and regulate the mining industry. The ASA and parliamentary PAC reports both revealed that monitoring of the mining sector by the Commissioner for Minerals Office was weak. The Commissioner, Dr Peter Kafumu, has himself accepted this, saying in March 2007, for example: 'We were novices in this industry and too many companies came at once. We were overwhelmed. We still need double the capacity we now have. This sector is a big challenge to us because it has grown too fast'.⁹⁶ One consequence of poor government monitoring, and the lack of adequate capacity, is smuggling.

Tanzania is about to introduce a new information system to improve data monitoring, which will reportedly

increase revenues by US\$50m in the current financial year, and is part of the World Bank-funded project mentioned above. The country is currently failing to work on about 1,500 applications for prospecting and mining licences, some of which have been pending for up to three years. The media has quoted the manager of this project as saying that the system has 'helped improve compliance among mining companies to pay royalties which has resulted in an increase in revenue collections'.⁹⁷

These capacity problems clearly need to be addressed, but they are also used as an excuse by the government for failing to negotiate better terms with the companies. Professor Issa Shivji, one of the country's most renowned legal scholars, told one of the authors that 'it's an excuse to say that the government lacks legal capacity to negotiate the agreements. They can always hire it. You don't always need high-flying lawyers. Some of the issues being negotiated are obvious'.⁹⁸ ASA reportedly offered the Commissioner for Minerals a computerised tracking system to monitor the industry but this was turned down. The problem is as much political will as the lack of capacity.

When the government failed to renew ASA's auditing contract in 2007, it said the reason was the company's

high fee. But some suspect that ASA was dismissed because of the vices it exposed in the mining industry. Instead of getting to the bottom of the problem identified by ASA, the government has since sought to try to get rid of the law that stipulates the need to engage the services of an external auditor. The Mining Act of 1998 stipulates that an external assayer must carry out the auditing of mining companies.⁹⁹ Yet the government has reportedly set up a new department within the Ministry for Energy and Minerals to carry out such auditing.¹⁰⁰

There has been speculation in the press that the lack of means of monitoring favours corrupt elements in the system. The absence of an external auditor is likely to increase the prospects of corruption.¹⁰¹

The lack of adequate scrutiny over policy, and the favourable treatment given to some mining companies, is widely believed in Tanzania to be linked to corruption. The country's Auditor General estimates that over 20 per cent of the government budget is lost annually due to corruption, theft and fraud.¹⁰² The World Bank's investment climate assessment states that the Tanzania Revenue Authority, which collects taxes, is very prone to corruption, while the Business-Anti-Corruption website notes that 'employees of the mining department demand bribes in order to issue mining or prospecting licences'.¹⁰³ The Economic and Social Research Foundation's *State of Corruption in Tanzania* report has noted that the Ministry of Energy and Minerals is 'prone to corruption' and that there is 'a conflict of interest among some officers of the [Minerals] Division who also own mineral rights'.¹⁰⁴

CHAPTER 3

LOCAL ECONOMIC DEVELOPMENT

Large-scale mining can potentially bring a number of economic benefits to local communities, such as creating employment, importing new technologies, and stimulating local economic activity by mines' buying local goods and services. In addition, companies can voluntarily spend money on 'community development' projects.

AGA and Barrick both claim to be bringing significant local economic benefits at all their mines. At Barrick's Bulyanhulu mine, the company claims that the local economy has benefited in various ways, such as building local roads, a power line and a water pipeline; creating 1,700 jobs at the mine with a likely 7,500 additional indirect jobs; by providing 147,000 hours of job training for Tanzanians; and through the company's social development projects including housing and health care.¹⁰⁵ A 2006 report commissioned by the World Bank analysing the various 'benefit streams' from AGA's Geita gold mine noted that, although there were various costs associated with the mine, 'there was unanimous agreement among the people that we talked to that the establishment of GGM [Geita Gold Mine] had been positive for the town, due to the increased circulation of money'.¹⁰⁶

Clearly, large-scale mining has brought some benefits to local economies. But the key questions are: how extensive are they and are they outweighed by the costs? Are there better alternatives? Closer inspection shows that many of the claims about the local benefits of mining are mirages.

Local employment

While large-scale mines can create jobs, there is extensive evidence that they create only a very small number. General studies by UNCTAD show that the 'employment effects are negligible' and that 'large-scale mineral extraction generally offers limited employment opportunities, and hence has little impact on employment, at least at the macro level. This applies especially to projects involving TNCs (transnational companies), as these companies tend to use more capital-intensive technologies and processes than domestic enterprises'.¹⁰⁷ Even the body that represents the global mining industry, the International Council on Mining and Metals (ICMM), has noted that 'because commercial mining is such a capital intensive activity, it has contributed less to Tanzania's employment and value-added (and so to GDP) than might be expected given the scale of the recent investments'.¹⁰⁸

Some estimates are that the mining sector in Tanzania has created around 10,000 job opportunities in the past decade.¹⁰⁹ The country's six major gold mines employ a total of 7,135 people, according to government

figures.¹¹⁰ A study for the ICMM noted that the mining industry, although employing less than 8,000 people, had created 45,000 additional jobs.¹¹¹

However, large-scale mining in Tanzania has made many more unemployed. Before the arrival of multinational companies, precious metals mining was dominated by small-scale artisan miners using simple tools and techniques, providing small incomes for a large number of people who were generally uneducated and poor and who often lived in remote areas with few employment prospects.¹¹² A study by the World Bank in 2002 noted that artisan mining 'represented a major and widespread source of income' while one academic study claimed that basic income in small-scale mining towns was six times what rural men could earn doing farm labour.¹¹³ Moreover, a survey conducted for the World Bank in 1995 estimated that 550,000 people were directly employed in small-scale mining. Another study estimated that by the late 1990s, the sector employed somewhere between 500,000 and 1.5m people.

Some studies show that the number of artisan miners declined in the late 1990s as the 'easy pickings' in surface mining became exhausted. Large scale mining gradually displaced the most of the remainder. When the first two large-scale gold mines (at Geita and Nzega) began construction in 1998 and 1999, around 30,000 artisan miners were removed.¹¹⁴ By 2006, a report commissioned by the World Bank estimated that there were around 170,000 small-scale miners in the country.¹¹⁵ Comparing these figures, large-scale mining may have made around 400,000 people, and possibly many more, unemployed. Thus, if anything, multinational mining has contributed to impoverishing the rural poor.

The context is one where Tanzania faces an unemployment crisis – official government figures show that one third of people between 15 and 35 are unemployed while around 700,000 school and university graduates enter the job market each year, but only 40,000 find employment in the formal sector.¹¹⁶

A 2004 report for the British government's Department for International Development states that ASM (small-scale artisan mining) 'has considerable potential to reduce poverty... what emerges from the study is that income from mining, particularly gold mining, is a more regular source of income than from [sic] other livelihood sources, such as agriculture, and it has been instrumental in reducing household food shortages... It also generates numerous opportunities for employment, however backbreaking and menial... There are therefore strong indications that if ASM is given due attention by authorities it could offer opportunities for self-sufficiency of communities and reduce dependence on government'.¹¹⁷ In Geita district, near the AGA mine, it is commonly estimated that an average small-scale miner wins about one half a gram of gold per day worked, earning about US\$6 a day on average, or US\$120 a month¹¹⁸ - this is four and a half times the average income.

Discrimination against Tanzanians?

Mining companies are able to employ an unlimited number of foreigners, compared to a maximum of five in other sectors, as noted above. Government figures show that of 7,135 people employed in the six major mines, 565 (or 8 per cent) are non-Tanzanians.¹¹⁹ In many mining operations around the world, many of the needed cannot be found locally, or even nationally; indeed, Barrick argues that Tanzania lacks experienced mining professionals with sufficient skills and consequently employs expatriates.¹²⁰

The expats usually occupy the management and supervisory positions and earn very large salaries in comparison to Tanzanian nationals. The Tanzanian Mines and Construction Workers Union (TAMICO) accuses Barrick of a variety of discriminatory practices at its Bulyanhulu mine, which culminated in a strike in late October 2007. TAMICO claims that Tanzanian mine employees earn from US\$200 up to a maximum

of US\$4,000 a month, whereas foreign workers earn between US\$6,000 and US\$20,000 a month. Moreover, it claims the mine pays Tanzanians less than foreigners even when they are doing the same job, and also that it is not uncommon for foreign assistants to be paid more than their Tanzanian managers. 'They think they are above the law', TAMICO's Secretary-General, Hassan Khamisi Ameir, told one of the authors.¹²¹ The Bomani commission report cites one case at an undisclosed mine where a foreigner was paid TShs 6m per month and a Tanzanian TShs 800,000 per month for doing the same job with the same qualifications.¹²²

The authors have seen some of the salary levels currently being offered by Barrick to expatriate workers at its Bulyanhulu mine; some of these appear to be exempt from paying income tax. These include:

- A South African human resources manager paid US\$179,429 year gross, meaning around US\$120,000 net, plus 20 per cent of the salary as a target bonus
- A commercial manager paid US\$110,000 net of Tanzanian taxes
- A supply manager paid US\$119,000 a year
- A commercial co-ordinator paid US\$69,000
- A contract officer paid US\$70,000.

The average pay for mineworkers in Tanzania is Shs160,000 – 300,000 (US\$128-240) a month, according to the Trade Union Congress of Tanzania (TUCTA).¹²³ This is a high salary compared to other jobs, in areas where few other jobs are available. However, by contrast, the pay packet of Barrick's chief executive, Greg Wilkins, was US\$9.4m in 2006, including basic salary, bonus and stock options.¹²⁴ It would take an average Tanzanian miner over 500 years to make this amount of money.

Neither is organising unions easy. A 2006 report commissioned by the World Bank notes that when the union at the Geita mine tried to organise the workers in 2002, the mine management refused to meet them for discussions. It took nearly two years of trying to secure recognition until the mine finally agreed upon a code of conduct and access to the mine in June 2003.¹²⁵ AGA now makes clear that 'only 3.1% of the workforce belongs to this union and there is no collective bargaining agreement in place'.¹²⁶

More positive has been the major mines' staff training programmes. According to a 2006 report the major mines have spent a total of US\$7m on training of approximately 7,500 personnel at the mines since 1997. This training can range from instruction in basic machine operation to sponsorship at professional levels.¹²⁷ Barrick states that it is in the process of investing \$2.9m to develop a training programme to train artisans and technicians, in collaboration with other mining companies.¹²⁸ This training may have positive outcomes, though the authors are unaware of any independent evaluations.

Buying local goods and services?

'Foreign affiliates [of mining companies] are more likely to use foreign suppliers of various inputs.... In developing countries, local sourcing of the highly specialised inputs used in mineral exploration and extraction is generally difficult.' UNCTAD¹²⁹

Tanzania's mining law does not require mining companies to buy any percentage of goods and services locally. The 1998 Mining Act abolished the provision in the 1979 Act, which required applicants for mining licences to present a plan for the local procurement of goods and services. This was part of the recommendations the World Bank had made to African governments in its 1992 Strategy for African Mining technical paper.¹³⁰ The Buzwagi agreement, as noted above, commits the company only to 'give preference' to local suppliers.

- Barrick claims that 'at least 55 per cent' of its procurement is done locally, stating that the Tulawaka mine spent US\$18m out of a total of US\$20m on local goods and services in 2005, while the Bulyanhulu mine spent US\$40m on local procurement.¹³⁷ The company states that it spent US\$104.9m on 'regional purchases of goods and services' in Tanzania in 2006.¹³² Barrick states in its 2006 annual report that in Tanzania 'input commodity prices are controlled by means of using preferred suppliers'.¹³³
- The former Chief Executive of Geita, Peter Turner, said in 2006 that Geita spends 46 per cent of its annual budget on local supplies and 54 per cent on foreign supplies.¹³⁴

These figures suggest that around half of company expenditure goes to local suppliers. Local spending will have some positive impacts, but Tanzanian producers could benefit more if companies were required to spend a larger proportion of their total expenditure on local purchases.

'Community development' spending

Mining companies tend to make all sorts of claims about the positive impacts of their community development spending, such as education or health projects, when it turns out that the actual amount spent is small in comparison to local needs or indeed company profits.

- AGA annual reports show that the company spent US\$2.8m on community development from 2003-06.¹³⁵
- Barrick's website suggests that it spent US\$13.4m from 2003-06 on donations, infrastructure development and 'community initiatives' – an average of US\$3.3m a year.¹³⁶ Its annual report states that it spent a total of US\$11m in Tanzania, Peru and Papua

New Guinea combined in the first half of 2007¹³⁷ and US\$15m in Tanzania and Peru combined in 2006 (without providing separate figures).¹³⁸ Barrick has also reportedly stated that it has spent US\$18.6m on community development at the Bulyanhulu mine.¹³⁹

AGA's annual community development spending has therefore been averaging around US\$0.7m a year, while Barrick's appears to be somewhere between US\$3-5m across all of its mines in Tanzania. These are low figures in comparison to the amount of gold exported, and are unlikely to generate significant local economic impacts.

Company claims regarding their community development spending have been disputed even by the government. In its review of MDAs and the taxation regime for the mining sector, the Masha Committee argued that the 'most of the costs for community development programmes do not specifically target the communities in the first place. Typically, for instance, a large water pipeline from Lake Victoria to the mine would have take-off points for local communities just along the pipeline.' The committee also noted that the mining companies' expenditures on community development were often included in their capital expenditure, meaning they could be deducted from taxable income.¹⁴⁰

It is also believed that considerable sums of money allocated to community development have in the last few years been lost to corruption at the local level. For example, some money allocated by the Geita mine to the local district council for a school project was relocated to a village where council staff had personal interests, while council staff have also been accused of collaborating with two Geita mine employees to embezzle money meant for compensating villagers after they were evicted to make way for the mine. Following these cases, the mine decided not to provide direct support through the district council.¹⁴¹

Harnessing mining to development?

'The question to ask ourselves is why is the minerals sector producing less results in terms of stimulating more investments? One would expect that the mining sector would be a catalyst for more economic activities in Tanzania in terms of diversification and linkages with other sectors. We need to change the way we govern the sector, the way we negotiate with transnational companies and the way we engage the public'. John Kyaruzi, director of research, Tanzanian Investment Centre¹⁴²

The mining industry's investment in Tanzania is believed to amount to US\$2.5bn.¹⁴³ But it is hard to see how this paper figure translates into actual development for people. Overall, there is little evidence that gold mining is significantly boosting the local economies around the mines.

Even the ICMM has concluded that in Tanzania 'the economic trickle-down effects from mining in terms of stimulating other productive activities are recognised to be still limited and certainly much less than those seen in more mature mining economies such as South Africa'.¹⁴⁴ As a UN Development Programme report from 2002 noted, despite the dramatic increase in gold exports, 'economic linkages between mining and the rest of the economy, including through the government budget have been limited during the period of this assessment.... Some observers believe that the new large-scale mining concessions leave little valued

added in the country. Secondly, direct employment effects have been constrained by the inadequacy of local skill capacity'.¹⁴⁵

Tanzania is clearly failing to harness the potential of gold to promote economic development. A USAID-funded study of 2001 concluded that 'the urgent task facing stakeholders is to devise a strategy to maximise sustainable development benefits of mining while it lasts'; it recommended a government strategy to create jobs and promote the diversification of the economy.¹⁴⁶ Yet five years later, a 2006 report commissioned by the World Bank concluded that 'up to now, revenue from mining in Tanzania has not been earmarked for any specific purpose'.¹⁴⁷

Mining revenues could contribute to the development of Tanzania's most important sector – agriculture. A specialist on agriculture at the Tanzanian Investment Centre (TIC) told one of the authors: '80 per cent of Tanzanians depend on it but it's the most underdeveloped sector we have. We're not using commercial farms enough. I can't say there are any particular successes at the moment. The potential is there since we have a local market for sugar, cotton and other products. But we need investment in this area.'¹⁴⁸ There are few indications of any increased investment in agriculture, especially small-scale agriculture, from mining as there is neither a government plan to direct it nor the tax revenue to pay for it.

RECOMMENDATIONS

The government of Tanzania's National Development Vision 2025 recognises the role of the industrial sector and seeks to transform the country from a least developed country into a middle income country by 2025. As part of this, the mining sector is envisaged to account for 10 per cent of GDP by then, compared to 3.8 per cent in 2006.¹⁴⁹ On current trends, this is unlikely to happen.

Hitherto, a very small circle of people in Tanzania – an elite clique consisting of government ministers, some donors and mining companies – has determined the fate of the country's rich natural resources in a way that is entirely unaccountable. Mining in Tanzania will quite possibly soon face a major crisis – either the country as a whole starts to benefit or else calls for the big mining companies to go will increase. Moreover, perhaps many Tanzanians may soon start questioning the benefits of democracy itself, given that the country's elected representatives have so far done so little to improve the lot of the population from this resource. The landslide 80 per cent vote secured by the ruling party at the last election is being squandered.

The recommendations in the report of the Bomani Commission provide a golden opportunity for the government to implement the positive changes to the mining sector that it has repeatedly promised. Major policy changes need to take place at a number of levels:

Review of mining and tax laws

Tanzania's Mining Act, especially its fiscal terms, should be amended to ensure the national economy benefits much more from gold mining. No new mining contracts should be signed until these amendments have been put in place. A number of new tax laws must be considered, such as the introduction of windfall taxes, allowing the state, district councils and village governments to control a percentage of equity in the mines, and requiring a certain proportion of royalties to go directly to the mine areas.

Engage donor support

The large donors, such as the British government and the World Bank, must champion and not oppose an agenda of fiscal reform. This will require pressure and monitoring from civil society organisations in Tanzania and internationally. The governments of South Africa, Canada and Britain must begin to challenge the role of the gold mining companies in Tanzania in terms of their impacts on local and national development.

Develop government strategy

The government should produce a strategy document outlining how it intends to harness mining revenues to national development. Its current priority of simply attracting foreign direct investment must be reoriented towards a holistic approach that emphasises the contribution of the mining to sustainable development.¹⁵⁰

Strengthen parliamentary scrutiny

Parliament has a key role to play in developing a strategy for mining and must play a much bigger role in scrutinising government policy. Existing mining contracts must be made public and subject to parliamentary scrutiny.

Introduce independent audit

The ASA audit report on the gold mining companies should be made public by the government, which should also outline what action it proposes to take regarding the report's findings to determine whether there has been over-declaration of losses and if so, to ensure that it cannot be allowed to happen again. A further independent audit of the gold mining companies, also to be made public, should also be undertaken, covering the years subsequent to the ASA report.

Enforce public disclosure

All the gold mining companies and the government should be mandatorily required to publicly declare full details on how much they pay and receive in tax from gold mining, consistent with the international Publish What You Pay campaign.¹⁵¹ The government should also join the Extractive Industries Transparency Initiative (EITI), which is intended to improve the transparency of company payments and government revenues from mining.¹⁵²

Create local accountability

Mining contracts must include specific provisions for consultation with local communities. Local government and local communities in the mining areas must have more say over mining operations. This will require a change in attitude by central government which fears a loss of control and power over the mining contracts.

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ACRONYMS

AGA AngloGold Ashanti
ASA Alex Stewart Assayers
EITI Extractive Industries Transparency Initiative
GDP gross domestic product
ICMM International Council on Mining and Metals
LDC least developed country
MDA mineral development agreements
PAC public accounts committee
TAMICO Tanzanian Mines and Construction Workers Union
TCME Tanzania Chamber of Minerals and Energy
TIC Tanzanian Investment Centre
TNC transnational company
TRA Tanzanian Revenue Authority
UNCTAD United Nations Conference on Trade and Development
UNDP United Nations Development Programme
USAID United States Agency for International Development
VAT value added tax

GLOSSARY

Capital allowance

The tax relief given on the expenditure a company makes on capital goods. Under Tanzanian tax laws the cost of all capital equipment incurred in a mining operation can be offset against the income from the mine in the year in which it is spent. If the profits of the mine are smaller than the capital allowances that could be claimed the capital allowances are then inflated in the following year (see unredeemed capital expenditure, below) and capital allowances are then given in the following year on the inflated sum.

Capital expenditure

A company's expenditure on capital goods.

Capital expenditure ring fencing

A company is only allowed to deduct the cost of capital expenditure at a particular mine against the income of that mine when calculating its tax bills. As a result it cannot deduct the cost of capital expenditure at another mine that is not yet making money from the income of the mine now generating profits. This brings forward the date on which tax is paid on profits but it may also have the effect of discouraging local reinvestment of profits.

Capital gains tax

Tax on the surplus obtained from the sale of an asset, such as a mine, land or the company as a whole. It is a tax charged on the difference between the amount received on the sale of the asset and the amount it cost.

Capital goods

Durable goods such as machines, tools, furnaces and other equipment used by mining companies to extract gold. These goods are not imported into Tanzania by trading companies to be sold on to consumers. Instead they are used by the company that buys them for use in its own gold extraction operations. This equipment is expected to be used by the company over a number of years. It is the fact that it has a life expectancy of several years that identifies it as being a 'capital' item. The cost of the capital expenditure is claimed as an expense to reduce profits in different ways for accounting and tax purposes. For accounting purposes it is charged as **depreciation**. For tax it is claimed as a **capital allowance**.

Corporate tax

The tax paid by companies on their taxable profits. Taxable profits are those declared in their accounts (see **net profit before tax**) but some adjustments are usually made for tax purposes. The most important by far is to add back to that figure for net profit before tax the depreciation charge and to then deduct from the resulting sum the capital allowance claim made for expenditure made on capital goods. Since the expenditure on capital goods often exceeds the depreciation charge it is common for taxable profits to be lower than accounting profits and for the actual tax due to be less than that which is apparently appropriate when multiplying the declared net profit before tax by the published corporation tax rate.

Depreciation

The accounting charge made to reflect the cost of a company's capital goods used to produce its gold during a period. This is also sometimes called amortisation. The capital goods a company uses are gradually worn out in use. The depreciation charge reflects this fact and a charge is made for this for accounting purposes. Depreciation charges do not involve any cash expenditure; the cash was spent when the equipment was purchased. There are several methods for working out this depreciation cost, for example dividing the original cost of the machine by the number of years it is expected to last, or by working out how many tonnes of ore it should be able to process and dividing the cost of the machine by this total to calculate an expected cost of using the equipment per tonne processed which is then used to calculate a charge in the accounts based on the amount of ore actually processed. By definition these depreciation charges will last for a number of years after the time the capital goods were purchased until it either is, or is for accounting purposes, considered to be worn out. This accounting treatment is very different from the equivalent charge made for tax that is called a **capital allowance**.

Gross profits

Calculated by deducting all the direct costs of extracting ore from the value of ore sold in a period, but without taking overhead costs into account. Direct costs are expenses such as the cost of employing miners, buying materials used in the mining process, paying for the power consumed when extracting ore, paying royalties due on the value of ore sold and the cost of shipping the ore to ports for export. In a mining operation depreciation is usually a direct cost and as such is deducted from sales income in the process of calculating gross profit. Overhead costs are not directly related to the production process and might include the cost of management, accounting, marketing, running offices, finance costs such as loan interest, advertising (if necessary), and training. Withholding taxes on the supply of services from overseas will probably be an overhead cost. These overhead costs are not charged against sales when calculating the gross profit, but are deducted from gross profit to calculate net profit before tax.

Net profits

Sales income less direct costs and overheads (see definition of gross profit above for more information).

Royalty

Effectively a sales tax charged on the market value of the gold sold. How this market value is calculated will determine the actual royalty a company pays. Companies might claim to sell gold to their buyers at a lower price (called the reference price) than the price of gold on international commodity exchanges, which means they would pay a lower royalty. It is therefore important for mining agreements to have proper market pricing arrangements in place. In the case of gold these will usually be fixed on an internationally recognised exchange.

Tax allowance

Expenses that can be offset against income when calculating profit and that are also allowed as an offset against income for taxation purposes. Some of these, such as capital allowances, are not accounting entries at all and are only calculated for tax purposes.

Taxable income

The net profit before tax when adjusted for depreciation charges that are not allowed for tax, the capital allowances that are claimed for tax instead of depreciation and any other adjustments to profit required by taxation law. Because capital allowance arrangements tend to be so much more generous than their accounting equivalent called depreciation no Tanzanian mining company has declared a taxable income to the Tanzanian government in the last ten years.

Unredeemed capital expenditure

A peculiarity of Tanzanian tax law dating from 1973. If a mining company has incurred capital expenditure that is greater than the amount needed to cancel all of its taxable income for the year on a particular mine, then the balance of capital expenditure not offset for tax in that year is carried forward for offset against the income of the next year. The peculiarity is that the balance of unredeemed capital expenditure is increased at the start of the next year by 15% as if this sum had been spent on additional capital goods even though this has not actually occurred. As a result the date on which the first tax is due from a mining operation can be deferred for a considerable period of time. This additional unredeemed capital expenditure has been cancelled in some recent mining contract renegotiations as the deduction has no economic substance. It seems likely that it was introduced at a time of high inflation to make sure that the real value of the amount expended was offset against income apparently worth more in a later period, but this has no relevance now and the allowance has instead been used as a way to defer tax payments for considerable periods.

Value-added tax

An indirect tax charged on the sale value of goods or services supplied. Most businesses can reclaim the VAT charged to them for the purposes of running their business. As a result they only pay over to the government the difference between the tax they charge to their customers and the VAT they are charged on their purchases. This, very approximately, equates to a tax on their 'value added', hence the name of the tax. VAT is also usually charged on the import of goods into Tanzania so that a retail company selling imported goods would need to pay VAT on importing goods into the company and then reclaim this cost when accounting for the VAT it has charged to its customers on their subsequent sale. Mining companies, however, are exempted from this charge on imports. This is largely because most of the gold they produce is exported and there is no VAT on the value of goods exported. As a result to make the mining companies pay VAT on their imports would simply create a situation where they had to make continual claims for it to be refunded by the government. Not charging VAT on exports is a characteristic common to all VAT systems all over the world.

Windfall tax:

An additional tax levied by the government on extractive companies when there are above predicted price increases of commodities on international markets (a boom). This tax is levied on windfall profits which arise not because of any action on the part of the company but because the price of the commodity they are dealing in has risen for reasons beyond their control e.g. there being a worldwide shortage.



CATHOLIC SECRETARIAT

TANZANIA EPISCOPAL CONFERENCE