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# Gold Mining Investment Incentives in Tanzania: Current Issues and the Possible Remedies

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**Abstract**

In recent years Tanzania has seen a rapid growth of its gold mining sector, the trend which has made the country the third largest gold producer in Africa. This growth is attributed much to the favorable investment climate created by the government for Multinational mining companies through the provision of various tax incentives and the ongoing discovery of new mining locations. Although tax incentives are attributed much for the promising trend of the mining sector, but, there is a controversy linking the granted incentives and the actual benefits the country realizes. The provided tax incentives seem to be way too generous causing the country to lose substantial amount of much-needed tax revenues. The practices of the incoming mining companies and local tax authorities are largely blamed for the ongoing trend.

**Keywords:** Gold mining incentives, Tanzania, Tax regimes

## 1. Introduction

In recent decades, Tanzania as one of non-oil producing countries in Africa has recognized the significance of encouraging the FDI inflows to its economy in order to compete with other countries with bigger local markets and more favorable environments with on-demand natural resources for foreign investments (for instance, oil producing nations). The flourishing incoming FDIs to the mining sector have had a substantial impact on the mining industry and the local economy. The incoming MNEs have helped the country in; boosting government revenues through tax revenues, human capital formation, transfer of knowhow and technology, etc. The efforts by the central government which in the year 2004 saw the country's GDP surge with the rise in economic growth led the country being named by FDI Magazine as the best economic potential in Africa for the year 2005-2006 behind South Africa, with the promising trend to date.

Although Tanzania has successfully attracted a significant amount of FDIs in the mining sector, however, still questions surround the actual benefits of the incoming foreign capital to the local economy and common citizens. People are questioning on how sincere are the granted incentives and if the tax authorities in the country are being overgenerous to the incoming MNEs. For instance, the country is locked in some investment contracts under ludicrous tax regimes that go for up to 50 years with huge tax exemptions and very low loyalty rates. This has contributed much to the country being ranked as one of the 10 poorest countries in the world although the country is a third largest producer of gold in Africa.

Several reports have critically disapproved these tax incentives as of being harmful to the country and the overall welfare of the locals. For instance, a number of tax incentives granted to MNEs investing in mining sector allow these MNEs to offset 100% of their capital expenditure against tax in the year, e.g., expenditure on mining equipments and properties, and Tanzanian government at present levies a 3% royalty rate on gold compared to other African countries such as Botswana which in turn caused the country to miss out on a chance to pocket about an extra US$58 million over the last five years (Tundu Lisu and Mark Curtis: A Golden opportunity?: How Tanzania is failing to benefit from Gold Mining, 2008). The tax incentives in force are blamed for the frustrating trend of the mining industry, especially during the period from 1995 to 2005 where most of the mining deals between the country and the investors took place.

Although some might argue that the implemented tax incentives for attracting FDI inflows have positively reshaped the face of Tanzania's mining sector, but the fact that local authorities' adopted settings of these fiscal incentives policies have a number of shortcomings and need major restructuring and or if necessary an overall setup. The current government under the leadership of president Jakaya M. Kikwete after a strong push from lawmakers and various scholars has come to realize the shortcomings of the existing incentives regimes and decided to act by forming a taskforce (Presidential Mining Review Committee) to review, identify unproductive incentives in use, and give

recommendations on the formulation of better and more productive tax regimes to attract healthy investments as well as looking for more appealing solution on how to deal with the existing bad contracts.

## 2. The Literature Overview

As already mentioned above, gold mining sector has become one of the top contributors to Tanzania's economy surpassing most of the traditional contributors of the local economy (agriculture). This sector contributes about 50 percent of the total government revenues with Geita gold mine, in Mwanza region, being the largest gold mining site in the country and contributes a bigger share of the total gold exports. Since the year 2000, mining in the country has generated about 67 percent of the overall FDIs to the country (US$ 2 billion of the total US$ 3 billion FDI inflows). Various reports by relevant sources such as UNCTAD show that the development of the country's gold mining sector has shown a strong momentum and if local authorities sincerely decide to step up strong measures to curb the existing constraints which cripple the sector, the country will realize a smooth running of the sector and positive contribution to the nation. Figure (1) shows the contribution of gold mining to the total exports of various commodities. The figure clearly shows the pace at which gold exports have taken since last decade, and since several new gold mining sites have been and are expected to be opened in the near future, the future of the sector looks bright.

During the period of 1995-2005, the country under the leadership of the then president Benjamin W. Mkapa, saw a number of mining contracts signed between the government and various MNEs. AngloGold Ashanti (South Africa) controls Geita gold mine while, Barrick Gold Corporation (Canada) currently operates three mining sites. Although there are other local firms engaged in small-scale gold mining in the country, but their share of the total contribution to the overall output is very low and the existing mining policies do not give small-scale mining firms better opportunity to compete with the incoming well-established MNEs. This has led to many local private small-scale gold mining firms to be "pushed" out to pave way for bigger investment projects by the incoming more advanced and well-equipped MNEs. The current policies don't provide enough protection to local civilians who are engaged in gold mining activities which in a number of times has caused violence to erupt in some parts of the country whereby locals who depend in that sector for living were forced to move to other places "supposedly with less gold deposits" paving way for large investments in their locations. The absence of transparency in majority of the processes, from signing of contracts to the granting of overly favorable tax incentives to the MNEs has raised eye browses of many people and they question if there is any sincere intention to have the locals enjoy the national cake.

Though there are various issues with the mining policy in the country, but Tanzania has maintained a solid performance compared to other African countries. For instance, among East African countries, Tanzania is ranked fairly higher than Kenya and Uganda on the investment climate. This is well shown on the report by the World Bank (2004) on the Investment climate in East Africa summarized in the Table (1).

As previously noted above, the existing mining policies favor the incoming MNEs, giving them a chance to unfairly profit from their investments in the local economy for decades with huge tax cuts or total exemptions. The existing mining laws seem to not have teeth sharp enough to press mining companies into sustainable contracts, for instance, the MNEs can "easily" walk away after they are "satisfied" that the mining sites they were operating in don't have any substantial deposits leaving behind useless (polluted) land. Also, in some areas, e.g., Mara region, there were claims connecting the mining activities in one of the mining sites with the water pollution, the claims which later led to the closure of the particular mining site. Several people died and many other infected after consuming contaminated water from the water sources near the mining site. The authorities couldn't act quick enough to solve the problem and the existing mining laws couldn't effectively solve the matter or severely punished all relevant sides involved in causing the catastrophe.

It is unarguably that these incentives plus tax evasions by MNEs have caused the government to lose a substantial amount of cash and the situation worries not only locals but also International bodies, such as International Monetary Fund (IMF). In one of its recent reports, IMF has shown its concern over the extended tax incentives granted by the government through Special Economic Zones (SEZs) which can be easily taken advantage of and leading to the loss of revenues from taxation (corporate tax). And the time limit set for the MNEs to enjoy the granted fiscal incentives is astonishingly long and not easily changed without further loses to the country. The following below is an account of key issues behind the granted tax incentives to the gold mining companies in the country and the possible measures that can be taken to curb the existing situation.

## 3. The Problems behind the Offered Tax Incentives and the Possible Measures to Remedy the Situation

A number of constraints face the gold mining sector in Tanzania in which some of them seem to be more critical, and, in case the government is serious about eradicating the existing situation more efforts need to be applied. A big portion of the country's wealth is driven out of the country leaving majority of the population with less feasible economic benefits while a few people responsible for ensuring the country's economy prosper unfairly benefit by abusing the

national assets that they are trusted to protect. Key issues facing the country's gold mining sector due to the ongoing implementation of tax incentives are explained below:

*3.1 Existing Problems*

3.1.1 Lack of openness

This is one of the main issues that cause headache in the country. It has been a thorny issue for quite some time now whereby the government signs contracts with the gold mining companies but decide to keep the details of the signed deals from the public and even country's lawmakers. During the period from 1995 to date, several questionable contracts have been signed with the important details of the signed deals still a big mystery to the public and the call to release the details get a discouraging response from the local authorities. For instance, the lack of openness on the subject of who really owns or who is in charge of the mining sites is an issue since some of the high ranking political figures directly or indirectly involve themselves in the running or ownership of gold mining sites which in turn make it harder for the public to get the desirable results due to the politicians' influence on decision making and less desire by those particular officials to eradicate this particular problem.

3.1.2 Poor setting of tax regimes

In addition to above, poor setting of local tax regimes seems to be the core issue surrounding the gold mining sector in the country whereby mining companies are granted extensive favorable tax incentives which on occasions involve the complete writing off of the tax (zero tax). These fiscal incentives although boost the inflows of FDIs in the industry but they seriously hurt the economy due to the loss of corporate tax revenues. Very low rates of loyalties (3%) and exemption of tax deal a big blow to the local economy, and this as noted above has alarmed various international bodies such as IMF. Some scholars argue that, some of the excessive generous incentives provided are not necessary, and the investments would probably have taken place regardless of the presence of incentives. Also the time limit set for most of the implemented investment projects in the mining sector to enjoy the provided incentives is too long. For instance in the Special Economic Zones (SEZs), the government grants up to 20 years with a possible extension to up to 50 years of tax reductions to the investors. And last but not least;

3.1.3 Corruption

Tanzania is one of the African countries that are plagued with high corruption rates. Apart from petty corruptions, grand corruption, particularly, seems to be unstoppable although the government has taken several measures to combat this thorny issue. The president of Tanzania took an initiative to formulate an agency to fight against corruption in the country, namely, the Prevention and Combating of Corruption Bureau (PCCB), the agency which has seen a constant outcry from the public on the way it operates. Several high-profile figures who have been accused of being involved in grand corruption were either defended or never been investigated by the bureau although most of the required evidences were seem to be in the open. This has raised many questions on the usefulness of the bureau and the integrity of the people trusted to run it. Also the failure of the central government to punish those in charge of running the bureau raises another question on the really intention of the government in combating corruption.

Although the government through the push by the lawmakers from the local opposition parties has shown some signs of trying to find a way out of the existing problems, more needs to be done. Below is an account of the possible measures the government and the public can take to eradicate the already mentioned core problems. These are as follows:

*3.2 Possible measures*

3.2.1 Proper setting of tax regimes

This is one of the key measures the Tanzanian government needs to take to minimize the problems brought by the careless adoption of the existing tax incentives. Formation of well-constructed tax regimes after a careful research on the subject matter would bring down the negative effect towards the economy without hurting the ongoing warming trend of the FDI inflows to the country. These new and restructured tax regimes will ensure that the government gains feasible results while the investors enjoy the favorable investment environment and obtain the value for their investment in the sector. For the country like Tanzania, setting loyalty rates at 5% (similar to some major producers of gold in Africa) as advised by various authors seems to be a fair and reasonable solution, given that most of these investors have already been enjoying excessively-generous tax incentives for over a decade. But this should be carefully implemented without scaring away the much-needed existing and expected FDIs in the sector while, the relevant local tax authorities work hard to achieve the most important goal of creating an effective tax administration which encourages voluntary tax compliance through the provision of high quality customer service with fairness and integrity through competent and motivated staff in the country.

3.2.2 Increasing Public Awareness

Furthermore, there is also a great need for the central government to increase public awareness on the need and importance behind adoption of various measures (granting of fiscal incentives) to attract new investments and

solidifying the existing ones in the country. This can be well done through various means such as; local media channels (TV, Radio, Magazines, etc), and by ensuring that all important details of the investment contracts are openly released in advance to important bodies in the country (e.g., national parliament, economic research centers, etc). This can help the government to get vital ideas, recommendations and suggestions on how to best construct the terms of investment projects (help with the better ways to negotiate investment contracts). This will also reduce misunderstanding between the investors and the locals who believe they are being robbed (which somehow seems to be the case) by the incoming foreign investors thanks to the poor investment policies and some dishonest local leaders and tax administrators.

3.2.3 Cleaning and Strengthening the PCCB

As previously noted above, corruption is one of the key issues that contribute in crippling the economy, and the institute that is given the mandate to combat the corruption problem has yet to deliver the outcomes every country-loving citizen in Tanzania was expecting. There is a call to the president (who picks the head of the bureau) to change the structure of the bureau, particularly firing the current PCCB's director general Dr. Edward Hosea for showing lack of integrity (by officially defending high-profile political figures who after investigation conducted by the special taskforce formed by national parliament were proven to be involved in grand corruption) at his work and his refusal to voluntarily step down from his current position. In addition to that, the bureau should be put under the national parliament watch instead of the currently assigned office, the President's office. This would ensure that the performance of this institute and its officials can easily and openly be monitored, and in case of serious mishandling of corruption (especially, grand corruption) cases, be easily held responsible and punished by the existing governing laws.

3.2.4 Encouraging and supporting local investors

Moreover, in recent years, there has been an occurrence of the central government putting much emphasize on the foreign investors side while keeping low profile on the other side, local investors. It has been proven that there is a number of local investors (e.g., Executive Chairman of IPP Group, Mr. Reginald Mengi, etc) who, if provided with proper tools and support, can perform well and even better than the incoming foreign investors, and in comparison to the incoming foreign investors, these local investors have considerably low demands for tax-incentives. The native investors are supposedly to care more about the local economy (employment of locals, minimum to no profit repatriation, etc) compared to the MNEs who can decide to leave at any time, for instance, in case of running into unprofitable business. Thus, Tanzanian government should encourage investment by local investors (large and small) especially in sectors as important as gold mining. And, last but not least;

3.2.5 Use of alternative investment incentives

Last but not least, in order to facilitate the reduction of the demands for excessively high tax reductions (or, exemptions) by mining companies for their investments projects, the government needs to engage in improving its own alternative incentives for investment. For instance, the government should improve transport networks (roads, railways, and telecommunication networks, etc) in the areas where the investment projects are likely to be established. This would cut down the need for "huge" cost of investment incurred by the mining companies investing in the areas. Also, it would boost the easy transportation of the products to other destinations and at the same time making the particular regions more favorable to investors with reduced demands from MNEs for high investment incentives.

## 4. Conclusion

This study took a look at the fiscal (tax) incentives offered to the multinational gold mining companies investing in the United Republic of Tanzania's rapid growing gold mining sector. These incoming mining companies seem to be enjoying considerable low-rates of tax (and sometimes, total exemptions) and other customs payments compared to MNEs investing in other major gold producing African countries (e.g., Botswana). The provided tax incentives are thought to be excessively-generous hence hurting local economy while providing the incoming gold mining companies with lucrative "hidden" profits for a considerable long period of time already.

This trend is well contributed by various factors, for instance; corruption, poor (ineffective) formation of tax regimes, just to mention a few. Various studies agree that, some of the tax incentives provided to the incoming foreign investors in the mining sector are not necessary and there is a chance that the investment in this particular sector would have taken place with or without their adoption.

Therefore, the government of Tanzania needs to take a closer look at the subject matter and take various (serious) measures to curb the ongoing trend which if not taken care as soon as possible, the country will keep on losing the much-needed tax revenues while finding itself being bound to poorly negotiated gold mining contracts that keep hurting the local economy.

Thus, in concluding this, the Tanzanian government needs to put more efforts in identifying and blocking all the identified loopholes that have been and still are spearheading the existence of badly negotiated mining contracts which lead to provision of excessively generous tax incentives, while looking for the right way to either re-negotiate or

completely terminating the already signed mining deals but without scaring away the incoming investors. Also, the government needs to ensure that only vital investment projects that wouldn't take place or wouldn't be successfully as desired with the absence of lucrative fiscal incentives are provided with tax incentives while trying to fairly compensate the lost revenues in other investment projects in the gold mining sector or and other sectors of the economy.

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Table 1. Doing Business in East Africa (World Bank: 2004).

| | | **Tanzania** | **Uganda** | **Kenya** |
|---|---|---|---|---|
| Starting Business | Number of Procedures | 13 | 17 | 12 |
| | Number of Days | 35 | 36 | 47 |
| Hiring and Firing Workers | Difficult of Hiring Index | 56 | 0 | 22 |
| | Rigidity of Hours Index | 80 | 20 | 20 |
| | Difficult of Firing Index | 60 | 0 | 30 |
| Getting Credit | Cost to Create Collateral (percentage of Income per capita) | 21.3 | 11.9 | 3.3 |
| | Legal Rights | 5 | 5 | 8 |
| Protecting Investors and Enforcing Contracts | Disclosure Index | 1 | 2 | 2 |
| | Number of Procedures | 21 | 15 | 25 |
| | Days Taken for Enforcement Contracts | 242 | 209 | 36 |
| | Closing Business (Years) | 3 | 2.1 | 4.5 |
| | Cost as percentage of Estate Concerned | 23 | 18 | 38 |
| Registration of Property | Number of Procedures | 12 | 8 | 7 |
| | Number of Days | 61 | 48 | 39 |

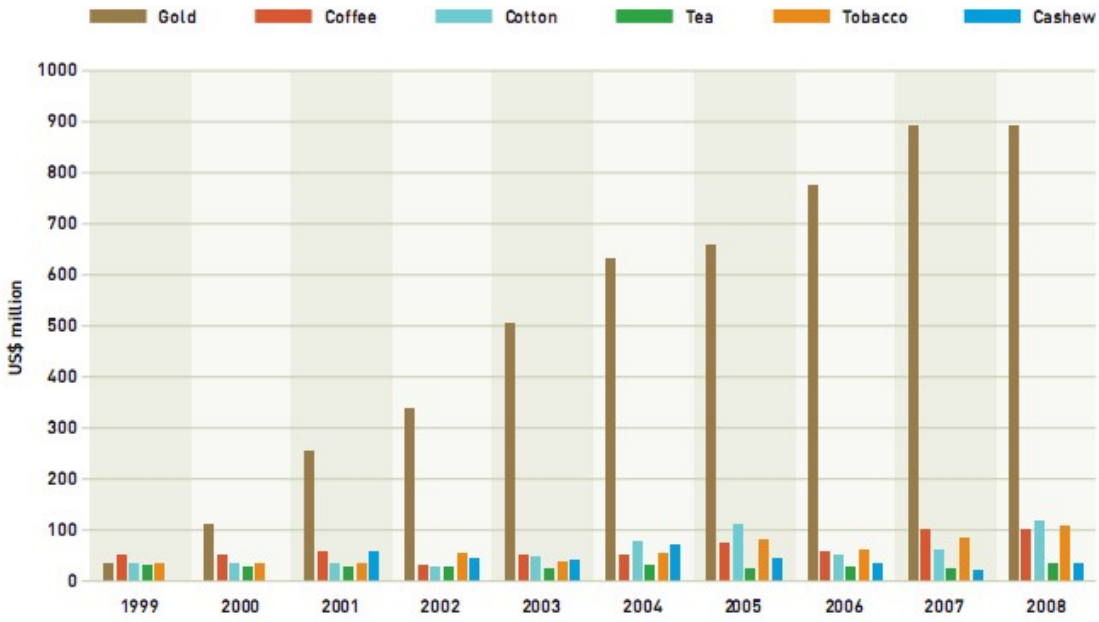


Figure 1. Exports display of Major exporting products in the country (1999-2008)

Note: The figures are in US$ million