A GOLDEN OPPORTUNITY?



A Golden Opportunity?: How Tanzania is Failing to Benefit from Gold Mining
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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: African Evangelical Enterprise, Tanzania Coalition on Debt and Development, Tanzania Gender Networking Programme, Women Legal Aid Center, HAKI ARDHI, The University of Dar es Salaam – Faculty of Economics, Tanzania Ecumenical Dialogue Group, Legal and Human Rights Center, World Conference of Religions for Peace, Norwegian Church Aid and Christian Aid. Warm thanks goes to all organisations and individuals involved.

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

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

Frontpage photo: Dorthe Pedersen
Design & layout: DJPA
Printing: Colour Print (Tanzania)

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Foreword
Mining for life

T*he 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.[1]'

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 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 Lama[II] 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 observe 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 the blessing and not the 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 tax laws 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.

In the last five years, Tanzania exported gold worth more than US$2.5 billion (bn). The government has received an average of US$21.7m a year in royalties and taxes on these exports, less than 10 per cent a year. At a very conservative estimate, we calculate that the combined loss to Tanzania of a low royalty rate, unpaid corporation tax and tax evasion is at least US$400m over the past seven years. We also estimate that the concentration of gold mining in the hands of large multinational companies at the expense of small-scale artisan miners has put 400,000 people out of work.

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

- It provides the government with minuscule tax revenues
- It is subject to minimal governmental and democratic scrutiny and has the associated problem of corruption
- People in the gold mining areas are not benefiting and many are being made poorer.

Tanzania's poverty and its riches

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.

It is imperative that Tanzania earns a windfall from gold while reserves last. The country's proven reserves of 45m ounces are being extracted at a rate of over 1.6m ounces a year, meaning that they may last 28 years; but three of the country's six large scale mines are set to close within ten years.



Don't fence me in: spoil from the mine at Tarime in North Mara forms a backdrop to village life



Sharp focus: villagers living alongside large-scale mining in Tarime, North Mara

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), low taxes on imports of mining equipment, the ability to employ an unlimited number of foreign nationals, and the ability of companies to carry forward losses and offset these against tax. The government takes no stake in gold mining operations, allowing foreign companies 100 per cent ownership. These incentives amount to hidden subsidies for the large mining companies.

Over the past five years Tanzania has exported gold worth more than US$2.5bn in an industry dominated by two multinational mining companies – the Canadian company, Barrick, and the South African-based AngloGold Ashanti (AGA). Yet government revenues in royalties and taxes from these exports are miniscule. They amount to just US$21.7m a year (an average figure calculated from various estimates).

As a percentage of exports, government revenue is consistently much less than 10 per cent a year. The 3 per cent royalty is bringing the government only an average of around US$17.4m a year. Raising the royalty rate to, say, 5 per cent would have increased government revenues by US$61m over the past seven years, and a rise to 7.5 per cent would have increased revenues by US$131m. If Tanzania had raised its royalty rate to that applied to diamonds in Botswana – 10 per cent – it would have earned over US$300m more.

Company figures show that AGA has paid taxes totalling US$96.8m in 2000-06, averaging US$13.8m a year. Yet over the same period, the company has produced about 3m ounces of gold worth US$1.43bn at current gold prices, meaning that it has paid the equivalent of just 6.1 per cent of its exports in total taxes to the government. Barrick, meanwhile, does not even state in its reporting how much in taxes and royalties it pays to the Tanzanian government - but even the highest estimates show that it is paying a figure equivalent to less than 10 per cent of its export sales in taxes.

Moreover, government figures show that not a single gold mining company in Tanzania has paid the corporation tax rate of 30 per cent on profits because they have consistently declared losses. Yet our analysis, drawing on AGA and Barrick company reports, shows that both companies are making profits in Tanzania that should have netted the government US$57m in corporation tax.

Tax evasion

The major companies have also been evading taxes. A government-contracted independent audit conducted by Alex Stewart Assayers (ASA) in 2003, and leaked to the media in 2006, showed that four gold mining companies, including Barrick and AGA, illegally 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. In February 2007, the parliamentary Public Accounts Committee (PAC) produced a report substantiating these findings. It found that the mining companies declared losses estimated at US$1.045bn between 1998 and 2005, equivalent to a quarter of the national budget for 2006/2007. The PAC regarded these 'losses' as suspect because the mining companies concerned were making heavy capital investments at the same time.

Tanzania's lost income

We estimate that the combined loss to Tanzania of a low royalty rate, unpaid corporation tax and tax evasion is at least US$400m over the past seven years. This is a very conservative estimate, in that it does not cover all the gold mining companies or all figures for the past seven 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.

Democracy and corruption

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 widespread concerns, though no hard evidence, that some government officials have been bought, and that corruption lies at the root of the recent deals.

The government, pressed by the World Bank and donors, has been able to impose a favourable tax regime in the country because there is inadequate democratic scrutiny. Gold mining in Tanzania remains shrouded in secrecy. Parliament has never seen any of the contracts signed by the government with the mines – except for the recent Buzwagi mining contract, which was leaked to the media. The agreement signed by the government with AGA in October 2007 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. The ASA audit report has never officially been made public and the whole auditing process – which was meant to increase company accountability – has been shrouded in secrecy from the beginning.

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. But many of these claims are mirages.



Tail end: the tailing of the waste water dam for Barricks mine in North Mara

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. Yet UNCTAD's latest estimate is that mining employs just 0.2 per cent of Tanzania's workforce. The largest gold mine in the country – AGA's Geita mine – employs just 2,043 employees and 1,177 contractors.

Rather, large-scale mining has contributed to mass unemployment. 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.



Gold diggers: large-scale mining equipment is imported tax free and written off for tax purposes in one year

Mining companies are able to employ an unlimited number of foreigners, compared to a maximum of five in other sectors. The expatriates usually occupy the management and supervisory positions and earn very large salaries in comparison to Tanzanian nationals. They are often not required to pay income tax in Tanzania.

The average pay for mineworkers in Tanzania is Shs160,000 to Shs300,000 (US$128 to US$240) a month. 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 very low in comparison to their profits and 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 (LDC) 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. 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 from gold mining.

- 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.



Men at work: traditional small-scale mining, like this in Nyarugusu, Geta, used to employ over a half a million people. Now, 400,000 of them are out of work

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 14 years, including as Head of Global Advocacy and Policy at Christian Aid and Head of Policy at ActionAid.

He has written five books and numerous articles on British and US foreign policies and international development and trade issues. His most recent books are: Unpeople: Britain's Secret Human Rights Abuses (Vintage, London, 2004); Web of Deceit: Britain's Real Role in the World, (Vintage, London, 2003); Trade for Life: Making Trade Work for Poor People (Christian Aid, London, 2001); The Great Deception: Anglo-American Power and World Order (Pluto, London, 1998); and The Ambiguities of Power: British Foreign Policy since 1945 (Zed, London, 1995).

He is currently an Honorary Research Fellow at the University of Strathclyde and has been Visiting Research Fellow at the Institut Francais des Relations Internationales, Paris and the Deutsche Gesellschaft fuer Auswaertige Politik, Bonn. He is a graduate of Goldsmiths' College, University of London and the London School of Economics and Political Science.

Tundu Antiphas Lissu is a lawyer and activist, campaigning on behalf of the human rights and socio-economic interests of rural communities. 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 foreign mining companies' operations.

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 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, due both to 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 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 12 million of the country's 39 million population living in poverty, on average incomes of Shs 399,873 ($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]

Tanzania operates six major gold mines 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 AngloGold Ashanti (AGA), which operates the Geita mine, the country's largest gold deposit. Based in South Africa, AGA's major shareholder is the giant British mining corporation, Anglo American. Tanzania is estimated to possess around 45m ounces of gold. 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.[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 only minuscule 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.



Black hole: even after digging down 600 meters AngloGold Ashanti claims it has not made a taxable profit

CHAPTER 1
TAX REVENUES FROM GOLD MINING

Tanzania's economy has been substantially liberalised over the past 20 years since the start 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 zero import duty on capital goods, 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. These policies have become standard in most developing countries, but Tanzania is offering a further raft of incentives to attract mining companies into the country. We have found no fewer than nine areas where special incentives are being offered to mining companies in various government policies and laws. These include the following[6]:

- Tanzania's mining law stipulates a royalty rate of 3 per cent on gold. Yet this rate 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.[7] An official at the Tanzanian Revenue Authority told one of the authors that 'royalty deferment is as good as an exemption. It means an exemption'.[8]

- Mining companies pay a 5 per cent duty on imports of spare parts (compared to 10 per cent for non-mining investors) in the first year of operations, and zero thereafter. They are also allowed a 5 per cent customs duty for equipment for mining exploration (such as explosives, industrial items, lubricants, fuel oils, machinery and vehicle) before the first anniversary of mine production, after which no customs duty is payable.[9] Mining companies also enjoy zero import duty on fuel. In April 2007, for example, it was reported that in 2004-06, the six gold mining companies imported 178m litres of crude oil, on which Shs62.8bn (US$60m) in taxes were waived.[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.

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 project[11] and completed the architecture of laws which remain the cornerstone of the tax and mining regime in the country.[12]

The 1998 Mining Act sets the royalty rate at 3 per cent and allows for payment to be deferred, as noted above. The Act also contains other provisions important to foreign investors. For example, it 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'.[13] 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.[14]

The Act also gives foreign companies the right to hold Mineral Rights in which they have exclusive ownership of mining operations and the minerals recovered, and complete power to dispose of them as they wish, along with the right to transfer those Rights to other companies.[15] 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. In 1999, Barrick bought the Bulyanhulu gold mine from another Canadian company, Sutton Resources, for US$280m while expecting to make US$3bn during the 15 year life-span of the mine. Neither the government of Tanzania nor ordinary citizens receive anything from these multi-million dollar deals.[16]

- The law allows mining companies, unlike other companies in Tanzania, to be exempt from paying capital gains tax.

- Special value added tax (VAT) relief for supplies to mining companies, which includes exemption from VAT on imports and local supplies of goods and services to mining companies and their subcontractors. This applies only to what the law refers to as 'non-chargeable mining operations', namely mining operations whose output is exported.

- Mining companies can deduct 100 per cent of their depreciation costs (i.e. the loss of value of their fixed

assets) from their taxable profits, for the lifespan of their mining operations. Non-mining companies are entitled to a 100 per cent depreciation allowance only for the first five years of operations.[17]

- 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.[18]

- Mining companies are allowed to maintain their accounts in US$ and their tax liability will then be assessed in US$ 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, '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 Committee.[20]

Establishing precisely how much tax is being paid by the gold mining companies in Tanzania is difficult since there are contradictory figures being given by the government and the companies. Table 1, on the following page, outlines some recent figures given by the government and the UN's trade organisation, UNCTAD. It shows, however, that government revenues from mining are exceedingly low: ranging from just US$13m a year to a high of US$36m a year; meaning an average of US$21.7m. As a percentage of exports government revenue is less than 10 per cent a year in all estimates. It should be noted that these tax 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.

Government figures on its tax receipts, however, show that mining provides even less money to the Treasury. The latest figures show that that the government received just Shs12.4bn (US$5.3m) in taxes from the whole mining sector (not just gold) in 2006 and even less, Shs5.6bn (US$2.4m), in 2005 – these figures compare to the large volume of exports outlined in table 3, on page 20. The 2006 figure amounts to just 4 per cent of the government's total tax revenues, including royalties.[21] What explains the discrepancy between these figures and those in Table 1? According to a recent parliamentary report, there are 'weaknesses in the keeping of the records of royalty payments within the Ministry of Energy and Minerals. These weaknesses may lead to significant revenue losses'.[22]

Then there are the figures declared by the companies on their tax payments.

Table 1: Government 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$)
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
Tanzanian Chamber of Mines, June 2007[26]	All mining companies	1997 - 2005	255.5m	n/a	n/a	28.4m
Ministry of Energy and Minerals, 2006 publication[27]	All 'major mines' in the country	1998 - 2002	86.4m	Not provided	8.4	17.28m
UNCTAD, 2005[28]	The six major mining companies	1997 - 2002	86.9m	890m	9.8	14.5m
Minister for Energy and Minerals, 2004[29]	All minerals (gold, diamonds, tanzanite)	1997 - 2002	86.8m	895.8m	9.7	14.5m
VARIATIONS					**3.0 – 9.8**	**13 – 36m**

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$96.8m in 2000-06, averaging US$13.8m a year. The former Chief Executive of the Geita mine, Peter Turner, has said that over the same period Geita produced about 3m ounces of gold worth US$1.43bn at current gold prices.[30] If this figure is correct, it means that Geita has paid the equivalent of just 6.1 per cent of its exports in total taxes to the government.

Again, 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.[31]

Barrick's tax payments

Barrick does not – as far as we have been able to tell - state in its reporting how much in taxes and royalties it pays to the Tanzanian government. This is a serious issue in itself for company reporting standards,

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)

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 figures provided in Siri Lange, Benefit streams from mining in Tanzania: Case studies from Geita and Mererani, CMI, Norway, 2006, Table 9, p.44

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 government receipts.[32] Various figures have, however, been made public by ministers and in the media:

- The Deputy Minister for Energy and Minerals, William Ngeleja, told parliament in July 2007 that Barrick's Tulawaka mine earned the government over US$15m from 1997-2006; that Bulyanhulu earned over US$81m from 2000-06; and that North Mara earned US$29m between 1997-2006.[33] This amounts to a total of US$125m, or an average of US$12.5m a year.

- One media report cites Barrick as paying Shs170bn (US$134m) in taxes and royalties in the past seven years.[34] This is an average of US$19.1m a year.

- It has also been reported that the Bulyanhulu mine, the company's largest, has paid the government around Shs156bn (US$120m) in taxes and royalties since its inception in 1999 until 2007. This amounts to US$13.3m a year. Over the same period, the mine has exported around Shs1.3 trillion (US$1bn) worth of gold.[35]

Barrick company reports state that from 2002-06, it sold US$966m worth of gold from Tanzania.[36] If we take the highest annual tax payment noted above - US$19.1m – this works out as just 9.9 per cent of Barrick's annual sales. Thus both Barrick and AGA appear to be paying less than 10 per cent of their export sales in all taxes to the government.

Royalties

Have the companies been paying the correct amount in royalties and corporation tax? Royalties are calculated under Tanzanian law as 3 per cent of the 'net back' value of mineral production, as noted above. Various figures have been provided on Tanzania's gold exports. Two recent sets of government figures are provided in Table 3 below, showing that Tanzania has 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$87.1m in revenues, or an average of US$17.4m a year. Indeed, the figures indicate that the companies have actually been paying about this amount.[37] The problem is that the royalty rate is too low to provide a fair share of income to Tanzanians. Using the same figures as above, we can calculate how much more revenue the government would receive if the royalty rate were 5 per cent and 7.5 per cent. Table 4 shows that raising the royalty rate to 5 per cent would have increased government revenues by US$61.3m over the seven year period, and a rise to 7.5 per cent would have increased revenues by US$136.3m. If Tanzania had raised its royalty rate to that applied to diamond mining in Botswana – 10 per cent – it would have earned an extra US$300m. If it had raised the royalty rate to the 14 per cent charged in Canada – Barrick's



Drilling deep: Setting up for the next blast

Table 3: 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.24[38]

home country – it would have fetched nearly US$500m extra.

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 2006[39]

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. As of late 2007, however, not a single gold mining company has paid corporation tax, according to government ministers. (The one anomaly here is that AGA claims to have paid US$1m in corporation tax in 2006, as noted in table 2 above). 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'[40]. 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 set these 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[41].

But in contrast to what Tanzanian government ministers have been saying, both AGA and Barrick company reports clearly show that both companies are making profits 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[42]. Yet AGA has been widely reported in the Tanzanian media as saying that it will only start paying corporation tax in 2011, some 11 years after beginning operations in the country[43]. 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

Table 4: Current and possible government revenue from royalties

	Total production 2000-06 (US$)	Current revenue from royalty (US$)	Revenue at 5 % royalty (US$)	Revenue at 7.5 % royalty (US$)
Barrick	1.74bn	52m	87m	130m
AGA	1.29bn	38.7m	64m	97m
TOTAL	**3.03bn**	**90.7m**	**151m**	**227m**
Increase over current revenues			60.3m	136.3m

as sales less cost of sales and amortization, i.e. depreciation) of US$97m since 2004.

The specialist mining journal, *Mineweb*, has reported that in 2006 the Tulawaka mine registered a net income 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.[44] 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.'[45]

This research suggests that AGA's and Barrick's declared gross profits – which combine to make US$190m – should have netted the government US$57m in corporation tax at the current rate of 30 per cent.

The companies have been able to avoid declaring a taxable income because they are allowed to deduct their capital expenditures from gross profits. 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

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
Percent rise 2002-06	370	226

** 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

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$1.51bn in 2006, which followed US$401m in 2005 and US$248m in 2004 – its profits have risen six-fold in three 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]

of another project and thus defers payments of corporate (income) tax'.[46]

However, these profits are likely to be the very least that the companies have earned, in light of the evidence that has emerged on the extent of their tax evasion.

Tax evasion

'Most of the annual reports issued by mining firms have one-side data that doesn't correspond with the actual truth on the ground'. Independent auditors commissioned by *Sunday Citizen* newspaper.[50]

Tanzania's low royalty rates and tax incentives are compounded by the practices of the mining companies. 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 the *Sunday Citizen* newspaper in 2006 and has been seen by the authors. It shows that the gold mining companies were overstating their losses to reduce their

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

tax liabilities to the government. Four companies over-declared their losses by a total of US$502m, meaning that the government lost revenues of US$132.5m. As outlined in Table 8, AGA's Geita mine declared a tax loss of US$193m while its actual loss was US$35m. Barrick's Bulyanhulu mine declared a loss of US$760m, while its loss determined by the audit was US$589m. The 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 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 amount of investment and production costs claimed was 'missing'.[51]

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'.[52]

However, the audit also showed 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 overleaf.

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'.[53]

Even this was not all. 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 found 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.[54]

The parliamentary PAC undertook to verify ASA's allegations and presented a report to parliament in February 2007. The PAC found that the mining companies declared losses estimated at US$1.045bn between 1998 and 2005, which was equivalent to a quarter of the national budget for 2006/2007. It regarded these losses as suspect since the mining companies were making heavy capital investments at the same time as declaring losses.

Since the ASA report was made public, however, no new measures have been taken to ensure that this 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', yet these taxes have not been paid.[55] Barrick and AGA disowned both the ASA and PAC reports and questioned their findings. 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

Table 7: Companies under-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

where we operate'.[56] In response to questions by the authors, 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]'.[57]

However, the *Sunday Citizen* newspaper employed other auditors, based in the northern city of Mwanza, to conduct a similar exercise to ASA using reported mining company data; this audit came to similar conclusions. It found that some gold mines were inflating their production costs per ounce while declaring lower gold prices at the world market, in order to post a reduced gross profit, and thus avoid paying corporation tax:

- In 2005, for example, one company (the audit didn't state which) reported a pre-tax profit of Shs11.7bn, but the independent audit using the same data found the figure to be Shs31bn.

- According to AGA's 2005 annual report, its Geita mine earned a gross profit of Shs11.7bn (US$9m) while its turnover totalled US$237m – this figure is noted in table 5 above. Yet the independent audit found, using the same figures, that turnover actually amounted to US$261m, based on the total number of ounces of gold produced at the average market price. This meant that AGA actually earned a gross profit of Shs31.2bn (US$24m). In turn, this should have required it to pay corporation tax of Shs9.3bn (US$7.2m) – charged at the normal 30 per cent of profit. However, the company's declaration of Shs11.7bn (US$9m) meant the government was to earn only US$2.7m on paper.[58] This said, the government has emphatically stated that no company has paid corporation tax anyway, as noted above.

Tanzania's lost income

So far, we have shown that the government has received only US$13 – US$28.7m a year in all taxes and royalties from the mining companies. But there are several other lost income streams that include:

- US$61m over the past seven years by not setting the royalty rate at 5 per cent, or US$136m by not setting it at 7.5 per cent

Table 8: 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

- US$57m in apparent unpaid corporation tax based on what just two companies – AGA and Barrick – have declared as their gross profits

- US$132.5m of tax evasion discovered by the ASA audit, 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 produces a total of US$400m (at the 7.5 per cent royalty rate) over the past seven years, but does not cover all the gold mining companies, or all figures for the past seven years (since these 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. It is therefore a very conservative figure; moreover, many of these figures rely on company reports which, as the ASA audit found, have been false. Lost income is therefore likely to be much higher.

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 less than 10 per cent of around US$3bn in gold exports since 2000 has gone to the government, the custodians of this natural resource, where exactly is the other 90 per cent, US$2.7bn? It is extremely difficult to work out from company data what the real costs have been of extracting gold from the ground. Out of this US$2.7bn, a few hundred million dollars more may have been lost to Tanzania: what is clear is that none of this has been retained in the country.

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$400m could pay for over 8.3m people to be provided with such services. The amount is the equivalent of over one and a half times Tanzania's entire health budget for 2007 or could fund the building of over 66,000 secondary school classrooms.

The government's mining review – and its forked tongue

The Tanzanian government is pursuing a decidedly ambivalent policy on mining and towards the 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'.[59] The same month, a committee was formed to review the Mineral Development Agreements (MDAs) signed with the companies.[60] 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.

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'.[61] Then in November 2007, the President announced the formation of yet another committee to further investigate the nature of the mining laws and contracts. The latest review committee – including two opposition MPs – appears intended to hoodwink the public and ease the political pressure on the government. It is the fifth such review committee since 2001; none of the reports of the first four reviews has ever been made public. It is dominated by government and ruling party functionaries, including officials who have openly been accused of corruption. Two of its members have recently resigned, citing significant conflicts of interests. More importantly, given the recommendations for extensive legal reforms made by the Masha Committee which reviewed the mining contracts and reported in September 2006, it is unclear what new findings or recommendations the latest committee can make.

As of late 2007, however, it appears that the government has never been that serious about the reviews of the mining sector. The committee officials involved in the first phase of the review – drawn from a variety of government ministries - were among the same people who signed the contracts with the companies in the first place.[62] Moreover, even though the actual laws - the Mining Act and the various related tax laws - have been extensively reviewed and recommendations for reform made, none of these 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.[63] These proposals never got off the ground and were not further pursued by the government for reasons that remain unclear.

As of November 2007, the government's review process had resulted in only two positive changes to mining company operations, both of which seem quite minor. 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.[64] The new aspect is that mining companies are now paying the money to district councils whereas in the past they were not.

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 the ASA audit made clear - and meant in effect that the government was each year donating to the mining companies 15 per cent of their expenditure on capital that they had not yet paid out. 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]'.[65] 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'.[66] 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.[67]

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. This is the only real change to have come out of the government's efforts to renegotiate the MDAs. It is a mystery how this figure was decided. Barrick has reportedly described it as a 'goodwill tax' – which is surely an extraordinary development in fiscal procedures since it appears to be some kind of voluntary compensation for not contributing significantly to government revenues.[68] Even worse, Barrick states that 'the payment of this amount will be reviewed by both parties should economic conditions deteriorate'.[69]

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.

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, reform. The government is to a large extent hamstrung by arguments about 'international competitiveness' and the need to continue to attract foreign investment. Second, there are widespread concerns, though no hard evidence, that that key officials have simply been bought and that corruption lies at the root of the recent deals (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.[70]

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'.[76] Nevertheless, it has

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

'They [the donors] remain tellingly silent on environmental rape committed by foreign mining companies. We don't hear strong words from them when artisanal miners or villagers in mining areas are undermined... When the mining law was being passed, or even now when there is a big debate on its contents, conspicuously missing is the voice of the donors... With such a stance, won't one be forgiven to conclude that development partners are guilty of condoning corruption by their kith and kin, the big Western mining companies.' Sunday Citizen editorial[71]

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 are silent on the issue of low gold mining taxes. Yet the governments of the UK, 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 is the British corporation, Anglo American, which, until October 2007, owned 42 per cent of the company. The UK 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 Industry Transparency Initiative.[74] However, none of these governments has raised serious concerns about how mining companies declare their revenues or about the favourable treatment provided to the mining companies. Even after the ASA report was made public, neither the UK nor Canadian government made any public pronouncement, according to the authors' information. The government relies on foreign donors to finance 40 per cent of its total budget.

Interestingly, 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 the UK government'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 italics). 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 details shows an extensive, detailed, three-year project (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].

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.[77] Moreover, it is of extraordinary benefit to Barrick while offering decidedly little to Tanzanians.[78]

- 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, and the clauses are based on the provisions of section 10 of the Mining Act and section 19 of the Tanzania Investment Act.

- The company will pay only a small amount in taxes, 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)

- Barrick is liable to pay income tax according to the 2004 Act (Article 4.2). However, this means that Barrick is entitled to a tax exemption on the corporate income tax of 30 per cent until such time that it declares a profit – like all other companies. As we have noted above, no company has declared a profit to date and there is no reason to expect Buzwagi to be the exception to this rule.

- 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, or even its own party.

- 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) At the same time, the company 'is entitled to import, without restriction, all items required for the design, construction, installation and operation of the project, including fuel, spare parts and replacements'. (Article 8.1) These goods can also be exported and re-imported without being subject to customs duties. (Article 8.2)

- 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)

- Perhaps most bizarrely, the contract commits the parties, in the case of a dispute, to entering into arbitration in London, not Tanzania. A clause states that the London Court of International Arbitration be the administering body. (Articles 13.2 and 13.5) This is consistent with paragraph 5(3) of Schedule 4 to the Mining Act, 1998 which stipulates that disputes between investors and Tanzania government shall be settled under the aegis of the International Center for the Settlement of Investment Disputes (ICSID), an arm of the World Bank. The contract was itself signed in a hotel in London, rather than in Dar Es Salaam, which roused considerable critical media and parliamentary comment.

Our calculation is that the total amount that Barrick will pay in tax – excepting royalty – under the agreement, is a grand sum of US$583,980 per year for the duration of the mine.[79]

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, and it appears they have been put forward to hoodwink parliament and silence calls for parliamentary scrutiny of the contract.

International comparisons

Tanzania's mining tax laws are similar to some other major African mining states in some respects but very different in others[82]:

- Tanzania's royalty rate of 3 per cent for gold is the same as in Ghana, another major gold producer. It compares to a 10 per cent royalty levied in Botswana for diamonds, and a miniscule 0.6 per cent levied in Zambia for copper.

- Tanzania's VAT laws are more permissive than most countries, with foreign companies and their subcontractors exempt from paying VAT on imports and local supplies. Ghana similarly applies zero VAT on mining assets, but Botswana applies a 10 per cent VAT rate. There are no special VAT provisions 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 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.

However, countries with very liberalised tax regimes, such as Ghana and Zambia, can hardly be held up as models. They have benefited only marginally, if at all, from mining.[83] 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 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$,[85] 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

Table 8: Unconfirmed royalty payments

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*

of mines. The Masha Committee recommended that the government seek equity participation not only in mines of strategic importance but also through the early entry into prospecting stages of future mine development.

The state of the reserves – is time running out?

Since Tanzania's revenues from gold exports are so low it is wrong to describe export figures 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.[86] 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.

Tanzania's gold reserves will not last forever and it is imperative that the country earns a windfall while they last. The country's 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. This means that total reserves may last 28 years; but three mines are set to close within ten years.

CHAPTER 2
DEMOCRACY AND CORRUPTION

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]

Journalists and activists who report on corruption and mining have consistently 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]

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. There is some speculation that a weak system is favoured by some corrupt elements in the system.[99] 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.[100] Yet the government has reportedly set up a new department within the Ministry for Energy and Minerals to carry out such auditing.[101] The absence of an external auditor is likely to increase the prospects of corruption. Already, there are some mines – such as Buhemba, allegedly owned by the government[102] - which have never been audited by anybody.[103]

The lack of adequate scrutiny over policy, and the favourable treatment given to the mining companies, is likely to be linked to corruption. Tanzania's Auditor General estimates that over 20 per cent of the government budget is lost annually due to corruption.[104] 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'.[105] 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'.[106]



Missing sign: how much does Anglo Gold Ashanti earn from Geita Gold mine?

There are also major concerns about the 'revolving door' of officials between the government and the mining companies, which raises questions of potential conflict of interests. For example, in a 1996 letter to the Department of Foreign Affairs and International Trade (DFAIT) in Ottawa, the then Canadian High Commissioner to Tanzania Verona Edelstein informed her superiors of the impending visit to Canada by the then Permanent Secretary in the Ministry of Energy and Minerals, Dr Jonas Kipokola. Edelstein suggested that Dr Kipokola be introduced to Canadian mining companies since his ministry 'shall be responsible for the removal of illegal miners from the Bulyanhulu area', then at the centre of a bitter dispute between artisan miners and the Canadian company Sutton Resources. In August of that year, thousands of artisan miners were violently driven from the mine area in one of the bloodiest episodes in Tanzanian history. In 2003, Dr Kipokola was appointed chairman of a government committee set up to review mining policy and law relating to foreign investment in the sector. Soon after the committee submitted its report in late 2004, Dr. Kipokola was appointed General Manager for Government Relations for Barrick.

CHAPTER 3
LOCAL ECONOMIC DEVELOPMENT

Large-scale mining could potentially bring a number of economic benefits to local communities, including creating employment, importing new technologies, and stimulating local economic activity by buying local goods and services. In addition, companies can 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 of ways. These include 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; and by providing 147,000 hours of job training for Tanzanians. There were also other benefits such as the company's social development projects including housing and health care.[107] A 2006 report commissioned by the World Bank analysing the various 'benefit streams' from AGA's Geita gold mine noted that, along with various costs associated with the mines, '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'.[108]

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. 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'.[109] 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'.[110]

Some estimates are that the mining sector in Tanzania has created around 10,000 job opportunities in the past decade.[111] A study for the ICMM noted that the mining industry employed fewer than 8,000 people in 2004

(including both mine employees and also contractors) but claimed it had created 45,000 additional jobs.[112] This figure seems to be a huge exaggeration. UNCTAD's latest estimate is that the mining sector in Tanzania employs just 0.2 per cent of Tanzania's workforce.[113] The largest gold mine in the country – AGA's Geita mine – employs just 3,220 people (2,043 employees and 1,177 contractors.)[114]

Rather than creating employment, large-scale mining in Tanzania is responsible for creating mass unemployment. 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.[115] 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.[116] 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.[117] By 2006, a report commissioned by the World Bank estimated that there were around 170,000 small-scale miners in the country.[118] 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. [119]

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. The Geita mine employs nearly 200 expatriates (around 6 per cent of its 3,200 employees)[120] while Barrick's Bulyanhulu employs 178 expatriates (around 9 per cent of its 1,971 employees).[121]

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.[122]

The authors have seen some of the salary levels, many income tax exempt, currently being offered by Barrick to expatriate workers at its Bulyanhulu mine. 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

Box 4: Poverty reduction through small scale mining

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'[123]. 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 month[124] - this is four and a half times the average income.

- 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).[125] The pay packet of Barrick's chief executive, Greg Wilkins, was US$9.4m in 2006, including basic salary, bonus and stock options.[126] 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.[127] AGA now makes clear that 'only 3.1 per cent of the workforce belongs to this union and there is no collective bargaining agreement in place'.[128]

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.[129] 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.' UNCTAD[130]

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.[131] 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.[132] The company states that it spent US$104.9m on 'regional purchases of goods and services' in Tanzania in 2006.[133]

- The former Chief Executive of Geita, Peter Turner, said in early 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. Barrick states in its 2006 annual report that in Tanzania 'input commodity prices are controlled by means of using preferred suppliers'.[135] Local spending will have some positive impacts, but Tanzanian producers could benefit more if companies were told to spend a larger proportion than this 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.[136]

- 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.[137] Its annual report states that it spent a total of US$11m in Tanzania, Peru and Papua New Guinea on community development in the first half of 2007[138] and spent US$15m on community development in Tanzania and Peru in 2006 (without providing separate figures).[139] Barrick has also reportedly stated that it has spent US$18.6m on community development at the Bulyanhulu mine.[140]

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 very 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 'financial statements of the mining companies invariably include expenditures on community development programmes in the capital expenditures of the mines [which means they are deducted from taxable income]…. 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.'[141]

It is also known that considerable sums of money allocated to community development have in the last few years been lost to corruption. 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 also collaborated 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.[142]

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, they way we negotiate with transnational companies and the way we engage the public'. John Kyaruzi, director of research, Tanzanian Investment Centre[143]

The mining industry's investment in Tanzania is believed to amount to US$2.5bn.[144] 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'.[145] 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'.[146]

Tanzania is clearly failing to harness the potential of gold to promoting 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.[147] 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'.[148]

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.'[149] 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.

There are several further concerns about the impact of the mines on local people – notably in the area of human rights, displacement to make way for the mines and environmental pollution. These issues lie beyond the scope of this report, which focuses on tax and economic impacts, and are instead considered in an accompanying report, *Not All That Glitters is Gold: How Tanzania's Mining Boom Has Impoverished Communities, Violated Rights and Degraded the Environment.*

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.[150] On current trends, this is simply not going to happen.

Rather, what is happening in Tanzania is that a very small circle of people – an elite clique consisting of senior government ministers, officials and executives of the mining companies – are determining 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 are doing 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.

Major policy changes need to take place at a number of levels:

Review of mining and tax laws

Tanzania's mining law should be reviewed and the Mining Act amended to ensure much greater benefits from gold mining to the national economy. No new mining contracts should be signed until this review has taken 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 local mine areas.

Engage donor support

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

Develop government strategy

The government must 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.[151]

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 must formally be made public by the government, which must outline what action it proposes to take regarding the report's findings to ensure that under-declaration of losses cannot be allowed to happen again. A further independent audit, to be made public, must also be undertaken into the gold mining companies for the years not covered by 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.[152] The government should join the Extractive Industries Transparency Initiative (EITI), which is intended to improve the transparency of company payments and government revenues from mining.[153]

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
BAKWATA National council of Muslims in Tanzania
CCT Christian council of Tanzania
EITI Extractive Industries Transparency Initiative
GDP gross domestic product
ICMM International Council on Mining an Metals
LDC least developed country
MDA mineral development agreements
PAC public accounts committee
TAMICO Tanzanian Mines and Construction Workers Union
TEC Tanzania Episcopal Conference
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 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.

Capital expenditure
A company's expenditure on capital goods.

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.

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 money 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.

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.

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.

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.

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.

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.

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.

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.

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.

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).






CATHOLIC SECRETARIAT

TANZANIA EPISCOPAL CONFERENCE