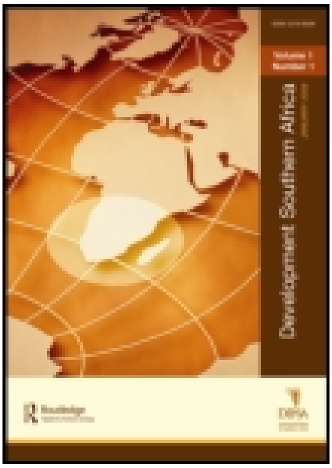

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Taxation in the Tanzanian gold sector: Overview of impacts and possible solutions

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Taxation in the Tanzanian gold sector: Overview of impacts and possible solutions

Petro Sauti Magai[1] & Alejandro Márquez-Velázquez[2]

This paper analyses the factors that reduce the gold sector's contribution to the Tanzanian government's revenue. Tanzania is among Africa's largest gold exporters. Yet ordinary Tanzanians have seen little benefit from this. This is partly because the government has enacted tax laws that are, as we shall see, overly favourable to multinational mining companies, and partly because of the same companies' business practices. Critics argue that the government fails to capture a substantial amount of state revenue as a result of low royalty rates, unpaid corporate taxes and tax evasion by major gold mine operators. This paper argues that the Tanzanian government should try to increase its share of revenues by taxation based on revenues, increasing its auditing skills and its involvement in mining, as well as by increasing the transparency of contracts and limiting the discretionary power of policy-makers in negotiating contracts.

Keywords: gold; impacts; taxation; revenue; Tanzania

1. Introduction

The first organised prospecting and mining in Tanzania took place during the German colonial period, beginning with gold discoveries in the Lake Victoria region in 1894. The first mining operation began at the Sekenke Mine, which opened in 1909. By 1930 gold production was substantial, and it continued to increase steadily until World War II. After the war, Tanzania's gold industry declined, reaching a point of near insignificance by 1967. The mines in operation during this time were those established by colonists and run by the government after independence.

Over the course of the 1980s and 1990s, the Tanzanian government undertook significant economic policy reforms, which included the National Economic Survival Programme in 1981, the Structural Adjustment Programme in 1983, and a donor-sponsored Economic Recovery Programme in 1986. In 1989, the Economic Recovery Programme was modified to create the Economic and Social Action Programme. The overall objective of these reforms was to increase the role of the private sector in the economic and social development of the country. Hence, many existing policies were reviewed to provide room for the private sector to make a contribution, especially through investment in production activities. This pro-business policy orientation also focused on installing modern management systems, thereby attracting investment to bring technology transfer and needed funding for various economic sectors, including the mineral sector. With respect to the mineral sector, government began its attempts to

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capture revenues by licensing private companies to buy, cut and export gemstones produced by small-scale miners. However, full recognition of the potential of the country's mineral sector would not come until the next decade.

The 1990s brought increasing awareness of the economic potential of Tanzania's mining industry. It was during this time that the country began liberalising and privatising its minerals sector. In the late 1990s, Tanzania experienced a gold boom that is still continuing. According to Phillips et al. (2001:5), a key policy decision that set off the boom was the dismantlement of the state-owned mineral monopoly, Stamico,[3] which allowed any Tanzanian to register claims and sell minerals. Since the onset of the boom, Tanzania has risen to a position of importance in African mineral production and export. In 2007, it was the third largest gold exporter in sub-Saharan Africa, behind Ghana and Mali, and ahead of South Africa, the fourth largest exporter in the region that year. In terms of gold production, Tanzania was the third largest sub-Saharan producer in 2010, behind South Africa, the region's top producer, and Ghana, as evidenced in Table 1. The foreign direct investment (FDI) that the mineral sector has brought in has been substantial and has helped the country become the second largest non-oil recipient of FDI in Africa in 2007 when it received US$5.94 billion[4] (UNCTAD, 2008). In addition to gold and diamonds, coloured gemstones are also mined extensively in the country (ABN Newswire, 2009). Although Tanzania is not yet a global heavyweight in mineral production, the sector is very important to the country's economy.

As pointed out in Curtis & Lissu (2008:13), there are six major gold mines in Tanzania. The majority of these mines are operated by foreign companies such as Barrick Gold Corporation from Canada, and AngloGold Ashanti (AGA) from South Africa. According to Curtis & Lissu:

> AGA has paid taxes and royalties totalling US$144m in 2000-07 and over the same period has sold around $1.55bn worth of gold, meaning that it has paid the equivalent of around 9 per cent of its exports in remittances to the government. Barrick, meanwhile, does not state on its website how much in taxes and royalties it pays to the Tanzanian government – our calculations show that it is paying a figure equivalent to around 13% of its export sales in remittances to the government. (2008:8)

Taking all this into consideration, and based on data and legal framework analysis of the Tanzanian mineral sector, we make the case for reforms that will allow government revenues to increase.

The remaining sections of this paper are organised as follows. Section 2 discusses the status of the gold industry in Tanzania. It provides an overview of the country's mining sector by outlining the ownership of minerals and mineral reserves. Section 3 outlines the macroeconomic impact of the minerals sector in Tanzania, and includes data on export performance and earnings, gross domestic product (GDP) growth, and FDI. Section 4 examines government policy with respect to the mineral sector, providing an overview of the policies, regulations, and activities related to mining.

[3]Acronym for the State Mining Coorporation, which is a public corporation formed in 1972 with the aim of conducting exploration, mining, production, processing, sorting, cutting, distribution and selling of minerals in the county, among others. For several years, Stamico has been facing a lot of challenges in the implementation of its activities due to receiving a limited amount of funds from the government budget. Changes in economic policies such as privatisation led to Stamico being added to a list of public corporations for privatisation.
[4]Most of this FDI went to the mineral sector.

Table 1: Gold exports (2007) and production (2010), selected countries

Country (world rank)	Gold[a] exports[b] in US$ millions	Share of world exports (%)	Country (world rank)	Gold production in tonnes	Share of world production (%)
United States (1)	13,404	18.03	China (1)	340	13.39
Australia (2)	9,402	12.65	Australia (2)	260	10.24
Canada (3)	6,035	8.12	United States (3)	228	8.98
South Africa (4)	5,240	7.05	South Africa (5)	189	7.44
Ghana (13)	1,459	1.96	Ghana (9)	92	3.62
Mali (14)	1,082	1.46	Tanzania (17)	39	1.54
Tanzania (25)	554	0.74	Mali (38)	39	1.54
World[c]	74,344	100	World	2,540	100

Source: Prepared by the authors using UN Comtrade (2010) data for exports, except for South Africa (Kohler, 2011); and using Brown et al. (2012) for production figures.

[a]SITC revision 3, code 97. [b]Re-exports included. [c]Sample of 115 reporter countries.

Additionally, it examines the advisability of government's current involvement in mining. Section 5 draws on points discussed in the earlier sections to offer critiques as to why mining has contributed less to the government's revenues than it could have done. Section 6 concludes this research with a number of policy recommendations intended for use by the Tanzanian government.

2. Status of gold mines in Tanzania

Since 2000, Tanzania's mining industry has experienced a boom in gold exploration and mining activities. Six large gold mines are responsible for much of the country's production.[5] Largely because of these six firms, Tanzanian gold production has increased significantly in recent years. From 1998 to 2005, gold production grew from 2 to 50 tonnes per year (Curtis & Lissu, 2008:13), making Tanzania one of the largest gold producers in Africa. Table 2 provides a summary description of the mines in Tanzania, presenting the location, type of mineral produced, ownership type, and ownership share.

As Table 2 shows, the Tanzanian government has only a limited numbers of shares in the mining industry. The largest share owned by government (50%) is in the Buhemba Gold Mine. Foreign companies own the majority of mines, which is largely explained by the power granted to them by government. Curtis & Lissu point out that:

> Foreign mining companies have exclusive ownership of their operations and the minerals recovered and complete power to dispose of them as they wish, including to transfer those rights to other companies, without incurring capital gains tax. (2008:15)

[5]Barrick Gold Mine, the world's largest gold miner (Curtis & Lissu, 2008:12), runs Tanzania's Bulyanhulu mine which has an estimated 13.2 million ounces in gold reserves. Barrick also owns Buzwagi (2.6 million ounces) and North Mara (3.3 million ounces) and maintains a 70% stake in Tulawaka (0.33 million ounces). AGA operates in Geita (14.7 million ounces), and Resolute Mining Ltd owns Golden Pride (2.5 million ounces) (The United Republic of Tanzania, 2008:16ff.; Roe & Essex, 2009:12).

Table 2: Ownership of mines in Tanzania

Mine or operator	Mineral	Location	Ownership (country)
Golden Pride	Gold	Nzega	Resolute Ltd (Canada)
Geita Gold Mine	Gold	Geita	AngloGold (South Africa)
Kahama Mining Corporation	Gold	Kahama	Barrick Gold Corporation (Canada)
Afrika Mashariki	Gold	Tarime	Placer Dome Inc Gold Mine (Canada)
Buhemba Gold Mine	Gold	Musoma	Government of Tanzania (50%); Meremeta Ltd (50%)
Tulawaka Gold Mine	Gold	Biharamulo	Barrick Gold Corporation (70%); Explorations Minieres du Nord (30%) (Canada)
Williamson Diamonds Ltd	Diamonds	Shinyanga	De Beers (75%) (United Kingdom); Government of Tanzania (25%)
Merelani Mining Ltd	Tanzanite	Arusha	Afgem (75%) (South Africa); Mr A Mpungwe (25%)

Source: Compiled from The United Republic of Tanzania (2008:16ff.).

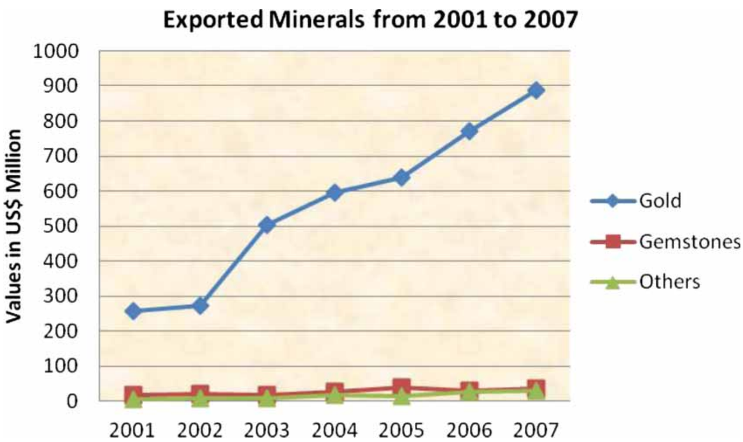

Figure 1: Value of exported minerals from 2001 to 2007 (US$ million).
Source: Constructed from The United Republic of Tanzania (2008).

It should be noted that Tanzania is a country endowed with substantial reserves of mineral resources, as is evidenced by the around 1275 tonnes of proven gold reserves in the country (Curtis & Lissu, 2006:14).

2.1 Export of minerals from Tanzania

Since the late 1990s, Tanzania's mineral output growth has increased rapidly with the introduction of modern mining technologies and practices. The growth in the value of mineral sector exports is summarised graphically in Figure 1.

The data presented in Figure 1 clearly show that Tanzania's recent mineral boom has been driven by the increase in the value of its gold exports, which rose from slightly over US$3 million in 1998 to just under US$900 million in 2007.[6] Indeed, gold

[6]The discrepancy with the value of exports given in Table 1 may be due to the data having been drawn from different sources.

production increased from less than 2000 kg in 1990 to more than 47 000 kg by 2005 (Roe & Essex, 2009:27). It is worth considering how the mineral sector export trends shown in Figure 1 have impacted on other macroeconomic variables.

3. Macroeconomic impacts of minerals in Tanzania

3.1 Foreign direct investment

In the past decade, Tanzania has seen an important increase in FDI inflows. UNCTAD data place Tanzania in the upper-middle ranking of African countries in terms of FDI, with its FDI stock rising from US$2.78 billion in 2000 to US$5.94 billion in 2007 (UNCTAD, 2008). With the exception of South Africa, all of the African countries that received more FDI than Tanzania in 2007 were oil and gas exporters (Roe & Essex, 2009:16).

3.2 Contribution to national income and government revenues

3.2.1 Exports' structure

The boom in the gold sector has changed Tanzania's export structure. In the period that spans the winning of independence in 1961 to the late 1990s, its exports consisted mainly of agricultural goods such as coffee, tea and cotton. However, gold has since displaced these goods from their preeminent place (Roe & Essex, 2009:17).

Figure 2 shows how gold exports have increased as a share of Tanzania's total exports, increasing from 2% in the late 1990s to 27% in the late 2000s. This increase has been accompanied by a decrease in traditional agricultural exports as a share of the total. UN Comtrade data confirm that the change in Tanzania's trade structure has occurred primarily because of a strong increase in gold exports and a slower increase of coffee, tea and cotton exports.

3.2.2 Gross domestic product

Despite mining being one of the fastest growing sectors in the Tanzanian economy, contributions to GDP from gold production have remained low when compared with its importance to the exports sector. Data on the contribution of the mining sector to GPD following the gold boom are presented in Table 3.

As the data presented in Table 3 indicate, mining activities grew steadily until 2007, both in absolute terms and as a share of GDP. Afterwards, mining activities continued to grow in absolute terms, but their share of GDP started to decline. In contrast, GDP growth during this period remained robust, almost immune to the global financial crisis in 2008 to 2009.

3.2.3 Revenue collection through taxes and royalties

Tanzania's mineral resource royalty rates have recently come under scrutiny. Curtis & Lissu (2008:31) argue that the current rate of 3% is low by both African and global standards. They go on to argue that the World Bank is responsible for this low rate. According to the authors, the organisation has rewritten mining laws in most African countries in order to make them 'internationally competitive'. Tanzania's relative weakness with respect to royalty rates is compared with Ghana (sliding between 3 and

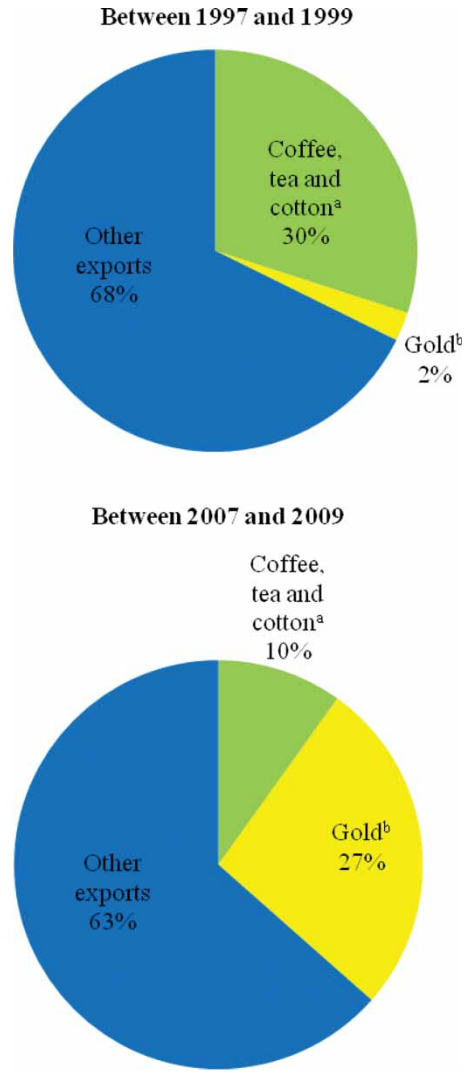

Figure 2: Export share averages (over total).
Source: Prepared by the authors using UN Comtrade (2010) data.
[a]SITC revision 3 code 97 for coffee, code 74 for tea and code 263 for cotton. [b]SITC revision 3 code 97.

12%), Mozambique (between 3 and 8%), and Botswana (royalty on gold production at 5%). In terms of precedents for higher rates, there are examples outside the African context unmentioned by Curtis & Lissu (2008). Analysing his sample of 68 mineral or oil-producing developing countries, Baunsgaard (2001:26) argued that most countries apply royalties and that the level is usually between 5 and 10%.

Despite its low royalty rates, the Tanzanian government managed to increase its revenue from mineral extraction during the recent boom. Annual revenues increased from approximately US$700 000 in 1997 to about US$36 million in 2006 (The United Republic of Tanzania, 2008). This increase is shown in Figure 3.

Table 3: Mining and total GDP (billion of 2011 TShs)

Year	Mining	Total GDP	Share of mining in total GDP (%)	Year-on-year growth of mining (%)	Year-on-year growth of GDP (%)
2000	140	8 585	1.63		
2001	160	9 100	1.76	14.29	6.00
2002	187	9 752	1.92	16.88	7.16
2003	219	10 424	2.10	17.11	6.89
2004	254	11 240	2.26	15.98	7.83
2005	295	12,068	2.44	16.14	7.37
2006	341	12 881	2.64	15.59	6.74
2007	378	13 802	2.74	10.85	7.15
2008	387	14 828	2.61	2.38	7.43
2009	392	15 721	2.49	1.29	6.02
2010 (preliminary)	402	16 829	2.39	2.55	7.05

Source: Constructed from National Bureau of Statistics (2011).

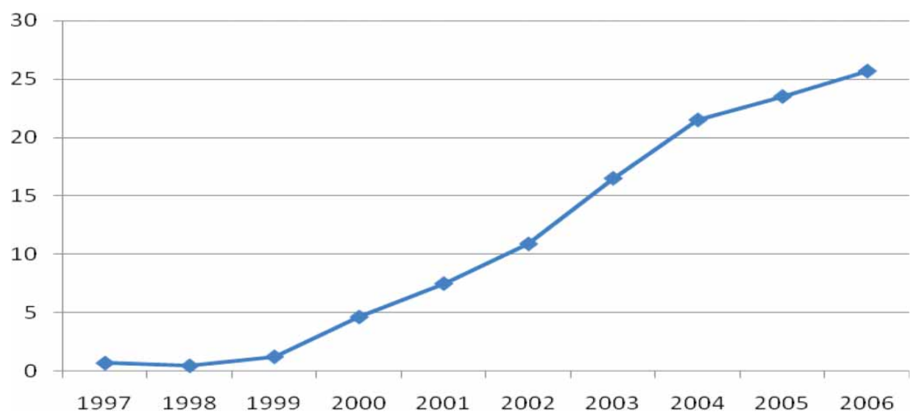

Figure 3: Royalties collected from 1997 to 2006 (current US$ million).
Source: The United Republic of Tanzania (2008).

Estimates of the total amount of revenue that the mineral sector has generated for government since the end of the 1990s and onwards are difficult to obtain with any degree of accuracy as they vary considerably from source to source. As a point in case, Curtis & Lissu (2008:18) offer an average annual revenue estimate between US$13 million and 36 million for the 1997 to 2006 period. To put these numbers in perspective, another estimate states that the mineral sector accounted for only 4% of total government revenues in 2005 (UNCTAD, 2007:137). The amount of revenue collected from the Tanzanian mineral sector is not only small when compared with other sectors, but it is also small in comparison with mineral revenues in similar countries. UNCTAD reports that:

> During 2004–2006, foreign mining companies in Peru paid $3.5 billion in income taxes, equivalent to 14% of their export revenues. While in the United Republic of Tanzania, out of earnings of $2.8 billion from mineral

> exports during 1999–2005, the government received some $252 million (9% of export revenues) in the form of various tax payments and royalties. (2007:137)

However, it may be less difficult for the Peruvian government to collect these taxes for two reasons. First, its mineral sector has been established for a longer period than in Tanzania and could therefore be subject to lower production costs. Alternatively, its mineral export basket may be of higher value than Tanzania's. This is reflected by the mineral rent as percentage of GDP was 3.81 in 2005 for Peru while in 2003 its value was only 0.3% for Tanzania (World Bank, 2010). This indicator, published by the World Bank (2010), measures the difference between the market value of a stock of minerals and the cost of production.

3.3 Mining and development

At present, close to 80% of Africa's resources are primary commodities (UNCTAD, 2008) and African economies are suppliers of raw commodities in the global economy. While this may imply that a surge in the mining industry is likely to impact positively on employment in Africa, the employment impact of large-scale mining is largely negligible. Because of its capital intensity, large-scale mineral extraction generally offers limited employment opportunities, and therefore has little impact on aggregate employment. However, if a less capital-intensive technology is used, more employment can be generated, at the risk of lowering productivity.

In 1995 the number of Tanzania's artisanal miners was approximately 550 000, a figure alleged to have tripled over the following decade (Curtis & Lissu, 2008:38). Little is known about the exact number of artisanal miners that remain in the informal sector, and therefore outside the mining taxation regime. However, remaining outside this regime does not mean that government fails to collect taxes from this group of workers. To some extent, they have to pay VAT on their inputs and, if their output is sold to end consumers in Tanzania, it is highly likely that VAT is charged (Hentschel et al., 2002:30).

In 2004, 10 000 miners were employed in the gold industry by multinationals with little opportunity for collective bargaining. In 2006, the South African-based AGA placed the figure of its unionised workers at 3.1%. Monthly payments for mine workers averaged $120 to 240, similar to what artisanal miners could expect to earn (Curtis & Lissu, 2008:10, 38ff.). However, working conditions may differ, since artisanal mining is well known to be a sector with poor working conditions where miners tend to work without appropriate equipment (Hentschel et al., 2002:41).

Despite the Tanzanian government currently implementing the second phase of its national strategy for growth and poverty reduction, the linkages between mining activities and poverty reduction cannot be gauged; this is especially true with respect to local employment creation, revenue generation, and public service delivery. What is clear is that settlements in the vicinity of mining sector operations are extremely poor. Living conditions are manifestly substandard, lacking even the most basic necessities for human health. Furthermore, social conditions are likely to deteriorate as unemployment among artisanal miners increases. Given the lengths government has taken to appease large-scale mining operators, the lack of attention to these conditions calls into question the priorities of public policy, especially that of poverty reduction.

Given its enormous mineral wealth reserves, there remains the question of why Tanzania has failed to benefit from the mineral sector. Lambrechts (2009) examined this question with respect to Africa in general, assigning the cause of low revenues to two factors. First, mining companies have been granted too many tax subsidies and concessions. In Tanzania, for example, there is an excise duty exemption for fuel, an exemption on fuel levy and production companies are given free custom duty (The United Republic of Tanzania, 2008). Second, there is a high incidence of tax avoidance among companies in the minerals sector. To quote Lambrechts:

> Mining companies believe they are entitled to special tax exemptions. It is therefore not surprising that they have largely opposed the changes proposed or made to mining tax regimes. In Tanzania, Barrick Gold has used the leverage of the Canadian government to try to stall tax regime reforms. The company has also publicly denounced the authors of a civil society report pushing for mining tax reforms. (2009:58)

This is regarded as a direct consequence of secret mining contracts (The United Republic of Tanzania, 2008:41) and the efficacy of creative accounting mechanisms.

As Sharife (2009) points out, Tanzania is a country 'seated atop a giant, 45 million ounce pot of gold, economically valued at US$39 billion'. The problems discussed in this section are unacceptable under any circumstance, and their manifestation in Tanzania is examined in detail in the following section.

4. The Tanzanian mineral policy stance

4.1 Mineral sector reform

In 1997 the Tanzanian government sought to promote economic development through the passage of the Mineral Sector Law. This law was passed as a means of fully integrating the benefits of the mineral sector into the national economy, including its links to other economic activities. 'The policy provides the direction of the mining sector in 25 to 30 years and it has become the vision to lead and direct the development of minerals activities in the country' (The United Republic of Tanzania, 2008:6). The policy's objectives include stimulating exploration and mining development, ensuring that mining wealth supports sustainable economic and social development, promoting and facilitating mineral and mineral-based products marketing arrangements, promoting and developing Tanzania as the gemstone hub of Africa, and alleviating poverty, especially for artisanal and small-scale miners (The United Republic of Tanzania, 1997a:9).

So far we have argued that in spite of the growing importance of the gold industry in the country, reflected in high FDI inflows and production growth rates, it is not clear that this has been translated into increased public revenue and employment opportunities. In the following subsection, we show how government has made the country an attractive investment destination.

4.2 Implementation of the mining policy

As a first step in implementing its new mineral policy, the government amended a number of existing financial laws in 1997 (The United Republic of Tanzania, 1997b). These amendments were intended to attract foreign private-sector investment to the mining sector. With this same purpose, it also enacted a mining law and made changes to the Foreign Exchange Act (The United Republic of Tanzania, 1992). In order to implement this policy, current taxation laws provide incentives for mining companies and their contractors. Indeed, the Bomani report correctly points out that the exemptions provided under this policy are numerous (The United Republic of Tanzania, 2008). Nonetheless, there are some distortions in the tax regime that may discourage international capital to come to Tanzania, as we shall see in the next section.

4.3 Nuisance taxes and discretionary deals

Despite the many tax exceptions granted to mining companies and their contractors, the major taxes and fiscal incentives applicable to the mining sector in Tanzania are generally comparable with those in other natural-resource-rich African countries. The problems in Tanzania with respect to mineral taxation are rooted in the existence of multiple types of 'nuisance' taxes. Specifically, this means there are numerous minor taxes and fees, such as the dealer's license, mining licenses, prospecting license, primary mining license, and primary prospecting license. Further problems arise from the complex design of these taxes, as well as the cumbersome and bureaucratic tax administration. These problems have placed Tanzania in an unfavourable position from the viewpoint of mining investors. Arguably, they may also be a cause of tax avoidance on the part of the mining companies.

It can legitimately be argued that Tanzania does not benefit from mining activity to the same extent as some of its African neighbours (Roe & Essex, 2009). Even if most African mining tax regimes are a mix of secret and discretionary deals in addition to formal tax laws, in Tanzania many of these laws allow ministers to negotiate tax deals with individual mining companies at their discretion. This often leads to lower royalties, corporate taxes, fuel levies, windfall or other taxes than those stipulated in the law (Lambrechts, 2009:xi). This may explain why Tanzania does not gain its 'fair share' from mineral extraction. Clearly, the scope of discretionary negotiations should be curbed. Furthermore, corrective actions should be undertaken soon, since Roe & Essex (2009:29) warn that 'there is likely to be a significant decline so that by 2023 export earnings from gold will be lower'.

5. What went wrong with the mineral sector?

5.1 Policy, regulation and acts

The analysis of Tanzania's mining policy in the previous sections suggest that government uses tax concessions merely as a tool to attract foreign mining investments, which are frequently employed in dubious ways and do not work towards a wider strategy for industrial development. The evidence suggests that the tax concessions provided by government, combined with the aggressive tax avoidance strategies employed by mining companies, have resulted in a substantial loss of government revenue that might otherwise have been used to spur economic development. Thus, Tanzania remains a mineral rich country that is nevertheless dependent on foreign aid to fill the gaps in its development budget (Upton, 2009).

The relationship between the mining industry and the rest of the economy, especially as a government revenue source, has been limited (Chachage et al., 2002:77). One reads that:

> Foreign mining companies in Tanzania are given up to 5-year tax holiday at the beginning of production, pay to the Tanzanian government a royalty fee

> of only 3 percent of the value of their mineral output, and thereafter are free to take out of the country 100 percent of their profits. Most of their mining equipment is also not taxed. (Chachage et al. 2002:87)

Regarding the issue of mine ownership, current government policy is silent with regard to Tanzania playing a larger role in the mineral sector. For example, the Mining Act allows 100% ownership of minerals and mines to foreign corporations, which effectively prevents government entering into new joint ventures (see Table 2).

These companies also have the right to employ an unlimited number of foreign workers, who are paid in foreign currencies, and are allowed to import car and other household equipment without paying import duties (The United Republic of Tanzania, 2008:114). Such rights limit local job creation and imply a loss of revenue for government, respectively. The government should rather own a certain percentage of shares and enhance full control of income, production, sales and orientation of the mining sector. Direct state involvement to help develop a national industry has been a common practice in late-industrialising countries around the world, from South Korea and Taiwan to Turkey and Brazil (Amsden, 2001).

5.2 Mining contracts

The Mining Act (1998) was enacted to support the implementation of the mining policy (The United Republic of Tanzania, 1997a, 1998). In 2004, a number of its sections were amended to satisfy policy needs. While these amendments were intended to improve the act, noteworthy loopholes remain. Indeed, the act remains extremely favourable to foreign mining companies. Such was the case in a 2007 contract between the Barrick Gold mine and the government (The United Republic of Tanzania, 2008). The favourable terms given to the company in the contract are evidenced in the following passage:

> It allows for the company to maintain current tax levels throughout the 'life of the project', placed at 25 years, with an option for Barrick to renew the same terms for a further 25 years: VAT exemption; a cap of US$200 000 in taxes per annum; the right to repatriate 100% of profits; deduct 80% of capital expenditure from tax payable; right of access and acquisition of water and land; and the right to pursue arbitration in London, or alternatively, via the 1998 code, the World Bank's International Centre for the Settlement of Investment Disputes, amongst other clauses. The UK is Tanzania's largest bilateral aid donor, with aid – the centre of Tanzania's political economy, supplying 40% of the country's budget (2007). (Sharife, 2009)

Contracts between the Tanzanian government and mining companies should be subject to public scrutiny – or at very least, parliamentary oversight. That way, the public interest could be better served by the government.

5.3 The issue of taxes and royalties

Curtis & Lissu (2008) provide evidence that mining companies have succeeded in their attempts to avoid taxation. Specifically they argue that Barrick and AGA have not paid any corporation tax, which is fixed at 30%, even if they are making gross profits as can be seen in their company reports (Curtis & Lissu 2008:8) because of the tax concessions they have received. Sharife (2009) points out that Barrick's manager has declared that his company plans to start paying this tax in 2014, when the firm projects that it will start turning a profit. However, auditing reports contracted by the Tanzanian government show that both companies overstated losses in the period between 1999 and 2003 (Sharife, 2009). Such practices cast doubt regarding the companies' estimations of the time needed for their projects to become profitable. To minimise similar problems in the future, the Tanzanian government should aim at taxing and collecting royalties based on revenue, not profit, when negotiating new contracts. Moreover, the tax office auditing skills should be improved. Unfortunately, the Tanzanian state suffers from severe shortcomings in its institutional capacity, as will be discussed in the next section.

5.4 Institutional capacity

The institutional capacity of the Tanzanian state is low, and ministers and the parliament hold insufficient power over mining firms to effectively serve the public interest. For example, as quoted in Lambrechts (2009:44), Tanzania's commissioner for minerals said that 'we have no capacity to look at their books. [The companies] can write the books so that third world countries cannot regulate. [...] I think the mining companies exploit our weaknesses in law and capacity'. Lambrechts (2009:x) also notes that in 2008 the minister of finance did not consider any of the tax increases that a presidential commission report recommended. However, he did introduce a new turnover tax directed at companies that consistently declare losses.

There is also substantial weakness in Tanzania's institutions of government. For example, the parliamentary majority decided to suspend an opposition parliamentarian from attending parliament in August 2007 because he proposed a government investigation into a new mining agreement that was signed without review by parliament. According to Curtis & Lissu, parliament has also been denied access to contracts signed by the administration: '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' (2008:9).

Given the institutional limitations to negotiate contracts that would avoid excessive tax concessions, it is time to consider an increase in the national ownership share of mineral resources. Further research needs to be carried out to recommend a specific path to achieve this goal. Direct participation through joint ventures with multinational corporations would not only ensure that a larger amount of the profits stay in Tanzania, but also allow the necessary knowledge transfer that would pave the way for the eventual development of Tanzanian private gold mining enterprises. This policy path should be seriously considered, since even an institutionally strong country like Norway has large shares of its oil sector in the hands of Statoil, a state-owned company.

6. Conclusion and policy recommendations

Gold mining in Tanzania has become a major part of the country's economy and can be considered responsible for the high growth rates seen recently. At the same time, the sector consistently fails to generate much-needed government revenue, which eventually undermines the development opportunities of the country in general.

Policy-makers, specifically those within the ministry of minerals and energy and in parliament, are advised and cautioned that the development impact of mining is ultimately determined by how mining royalties and other taxes are legislated, collected and used to help develop other economic activities and address social problems. Government should also assure that transnational mining companies integrate their activities into the development strategies of the country in order to have a clear link between the mining sector and the wider economy.

As this paper has shown, government must design policies and decision-making processes, which should be accomplished by mobilising political support and by improving the governance of minerals. Further, it should enact policies and regulations that mining firms will be required to adhere to; enforcement of new and existing laws cannot be ignored. This paper has shown that mining companies could increase their contribution to taxes and royalties. To ensure higher revenues, the government could complement its efforts not only by enhancing its auditing skills and charging taxes and royalties on revenues (not on profits), but also by increasing its direct involvement in the production process.

Before any further mining contracts are signed, government must take steps to ensure that agreements are made in the full light of public scrutiny, and that final agreements cannot be made without the approval of parliament. By holding itself accountable to parliament, and therefore to the public, government can ensure that the public will be aware of how their national resources in this valuable sector are being managed. This greater democratic participation on the part of citizens will help to ensure that Tanzania's great national wealth is applied wisely. As Cervantes once advised: 'the gratification of wealth is not found in mere possession or in lavish expenditure, but in its wise application'.

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