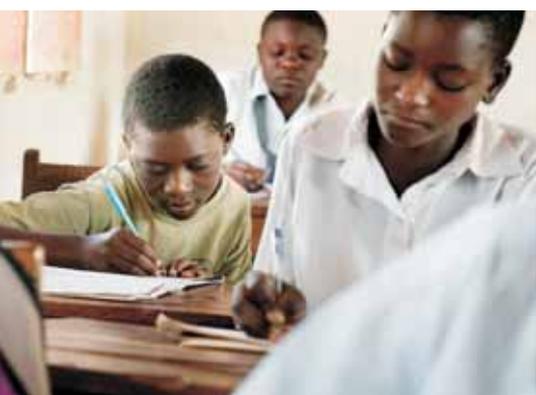


THE ONE BILLION DOLLAR QUESTION

'Revisited 5 years later'

HOW MUCH IS TANZANIA NOW LOSING IN POTENTIAL TAX REVENUES?



May 2017

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The One Billion Dollar Question Revisited:
How Much is Tanzania Now Losing in Potential Tax Revenues
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The Most Rev. Paul R. Ruzoka
Chairperson ISCEJIC

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FOREWORD

The Interfaith Standing Committee on Economic Justice and the Integrity of Creation (ISCEJIC) is a faith-based committee comprising of religious leaders from Tanzania Episcopal Conference (TEC), The National Muslim Council of Tanzania (BAKWATA) and The Christian Council of Tanzania (CCT). The committee was formed in 2007 to facilitate religious leaders to effectively advocate for social and economic justice. This resolve emanates from the fact that advocating for the rights of the marginalized, the poor, and the voiceless is one of the cornerstones of the constituting faith.

Five years ago, in June 2012, the Interfaith Standing Committee published a report called "The One Billion Dollar Question: How can Tanzania Stop Losing So Much Tax Revenue". The report estimated that Tanzania, one of the poorest countries in the world, was losing around 1 billion dollars in tax revenue annually mostly through tax evasion, capital flight and tax incentives. The report provoked public debate and became an eye-opener for decision makers.

Since then, the new Tanzanian government has opened a window of opportunity through its strong commitment to combat corruption as well as increasing state revenue. Religious leaders of Tanzania appreciate this commitment and support the ambition of the government to stop losing so much tax revenue. Still, as the current report documents, there is a long way to go.

In the current study the Interfaith Standing Committee is revisiting the one billion dollar question, in order to get an updated picture from the first report. Despite the many measures taken, the report estimates that Tanzania is losing even more than before, around 1.83 billion USD, from tax incentives, illicit capital flight, the failure to tax the informal sector and other forms of tax evasion. In addition, it is estimated that the country is losing a further 1.3 billion USD from corruption in the national budget.

As religious leaders, we see this situation as very worrisome. In our daily work in the churches and the mosques in the local communities, we meet the people most heavily affected by this loss: The widow after a man with no health insurance, the child with a dream of quality secondary education, the grieving mother that lost a child due to lack of medicines in the hospital, the teacher that can barely sustain his living from low salary. As religious leaders we lift our voices together with these people and are ready to walk together with the government in their efforts to address the revenue loss. We see, that in order to uphold human dignity, the government must do even more. The report entails several recommendations which we hope will help the government in this regard.

Developing an effective tax system is vital not only since it can generate increased revenues for the government to invest in social and economic development in order to eradicate poverty, but also, effective tax systems can help countries escape dependence on foreign aid or finite natural resource, this helping to diversify a country's economic base. An effective tax system is critical in promoting democracy – by reinforcing the legitimacy of the government and promoting the accountability of the government to its citizens. How well government money is spent is a sign of how deep a democracy and functioning state really is. And how fairly government revenues are raised is a sign of how equitable a society's development is.

We pray that this report be an inspiration to work even harder to form an effective tax system of Tanzania. We can reassure the government of accompaniment of religious leaders on this path. God bless Tanzania.

Tanzania Episcopal Conference - The National Muslim Council of Tanzania- Christian Council of Tanzania

CONTENTS

SUMMARY	v
INTRODUCTION	xiii
1. TANZANIA'S TAXES	1
1.1 Tax collections	1
1.2 The tax gap	3
1.3 Reasons for low tax collections	3
1.4 Steps being taken to increase tax revenues	4
2. TAX INCENTIVES	6
2.1 Progress in reducing incentives	6
2.2 Ongoing tax incentives	7
2.3 Revenue losses from tax incentives	9
2.4 Conclusion: Is the government implementing our recommendations?	11
3. ILLICIT CAPITAL FLIGHT	13
3.1 Revenue losses from trade mis-invoicing	13
3.2 Transfer pricing regulation	14
3.3 Remaining challenges	15
3.4 Use of tax havens	16
3.5 Conclusion: Is the government implementing our recommendations?	17
4. TAX EVASION	19
4.1 The government's clampdown on tax evasion	19
4.2 Revenue losses from tax evasion	19
4.3 Corruption in the government budget	22
4.4 Conclusion: Is the government implementing our recommendations?	22
5. THE MINING SECTOR	23
5.1 Government earnings and losses from mining	23
5.2 Tax incentives	26
5.3 Illicit financial flows	27
5.4 Smuggling	27
5.5 Transparency	28
5.6 Conclusion: Is the government implementing our recommendations?	29
6. LOCAL CONTENT POLICIES	30
6.1 Oil and gas	30
6.2 Mining	31
6.3 Agriculture	32
7. SOCIAL PROTECTION	34
7.1 Current social protection schemes	34
7.2 Government spending and key priorities	35
RECOMMENDATIONS	37

SUMMARY

In 2012, the Tanzania Episcopal Conference, National Muslim Council of Tanzania and the Christian Council of Tanzania jointly published a report entitled *The One Billion Dollar Question: How Can Tanzania Stop Losing So Much Tax Revenue?*¹ The report estimated that Tanzania was losing revenues of between \$847 million and \$1.3 billion a year from a mix of tax evasion, tax incentives and capital flight. This report followed another in 2008, published by the same three organisations, focused on gold mining, entitled *A Golden Opportunity: How Tanzania is failing to Benefit from Mining.*² That report estimated that Tanzania had lost at least \$265 million in recent years in the mining sector from excessively low royalty rates, tax incentives and tax evasion.

Both these reports made recommendations to the government of Tanzania to halt this drainage of revenues and instead take steps to ensure that these were invested in the welfare of the country's people, especially in providing public services.

The purpose of the present report is threefold, to assess:

- how much revenue Tanzania continues to unnecessarily lose from the same sources
- how far the government has gone, and is going, to halt these revenue losses
- the extent to which the government is implementing the recommendations made in the two previous reports.

The new figures

New research presented here shows that Tanzania continues to lose a vast amount of resources every year – in fact, these losses are if anything increasing. The research estimates that **Tanzania is now losing around \$1.83 billion (TShs 4.09 trillion)** a year from tax incentives, illicit capital flight, the failure to tax the informal sector and other forms of tax evasion. The country may be losing a further \$1.3 billion (TShs 2.9 trillion) from corruption in the national budget, which diverts resources away from funding critical public services.

If the \$1.83 billion loss were used to fund public services, it could:

- **triple the government's entire health spending, or**
- **nearly double the government's education spending**

Alternatively, the lost revenues amount to a staggering 10.5 times the amount spent by the government on social protection. It is clear that if the government could recover these lost revenues, it could **completely transform social protection measures in Tanzania and support the most vulnerable.**

The government is implementing some of the previous reports' recommendations and taking some welcome steps to curb revenue losses and tax evasion. However, these remain insufficient to stop this huge drainage of wealth from Tanzania's people, and many recommendations are not being addressed.

SUMMARY OF REVENUE LOSS ESTIMATES

	Estimate made in <i>One Billion Dollar Question</i> report, 2012	New estimates, 2015/16	% of revenue loss	Change since 2012
Tax incentives/exemptions for corporations	\$288 million / TShs 458.6 billion	At least \$300 million / TShs 670.5 billion	16%	Roughly the same
Illicit capital flows (tax revenue losses therefrom)	\$28-300 million / TShs 45 – 478 billion	\$464 million / TShs 1.0 trillion per year from trade mis-invoicing	25%	Increased
Informal sector (revenue losses from the relatively non-poor who should be taxed. Estimated at a quarter of collectable tax revenues)	\$220-377 million / TShs 350-600 billion	\$761 million / TShs 1.7 trillion	42%	Increased
Other tax evasion	\$151 million / TShs 240 billion (Company mis-reporting of sales and losses)	Over \$250 million / TShs 559 billion (VAT tax evasion, undervaluing imports, fake imports, untaxed forest revenues)	14%	Increased
Additional mining sector revenue losses	\$50 -176 million / TShs 80 – 280 billion (alleged financial over-claims)	\$57 million / TShs 127 billion (estimate of unpaid taxes undiscovered by government audits)	3%	Roughly the same
Total	\$847 million - \$1.29 billion / TShs 1.17 – 2.06 trillion	\$1.83 billion / TShs 4.09 trillion	xx	Increased
Corruption in the government budget (20% of expenditure lost to corruption)	<i>xx (this was not analysed)</i>	\$1.3 billion / TShs 2.9 trillion	xx	xx
Grand total	xx	\$3.1 billion / TShs 6.9 trillion	xx	xx
<i>Note: IMF estimate of overall tax gap (due to tax administration inefficiencies, tax evasion and tax design/incentives).</i>	<i>xx</i>	<i>\$1.21 billion/ TShs 2.7 trillion</i>	<i>xx</i>	<i>xx</i>

What could the lost revenues pay for?

In the 2016/17 budget, government outlined expenditure amounting to a total of TShs 29.5 trillion (\$12.2 billion). Of this:

- health was allocated TShs 2.0 trillion (\$897 million)
- education TShs 4.8 trillion (\$2.15 billion)
- social protection TShs 388 billion (\$174 million).²²⁹

This research estimates that Tanzania is losing revenues worth \$1.83 billion/ TShs 4.09 trillion a year (even without the revenue losses from corruption in the government budget). **These revenues could:**

- **triple the government's entire health spending, or**
- **nearly double the government's education spending**

Alternatively, the lost revenues amount to a staggering 10.5 times the amount spent by the government on social protection. It is clear that if the government could recover these lost revenues, it could completely transform social protection measures in Tanzania and support the most vulnerable.

Tanzania's taxes

The government announced in the most recent budget speech that a tax collection of 13.8% of GDP (TShs 15.1 trillion) was envisaged in 2016/17 from an estimated 12.6% of GDP in 2015/16.³ In recent years, however, the proportion of GDP collected in tax has barely increased in Tanzania. Furthermore, tax revenues are not projected to increase much based on current plans: IMF figures suggest an increase to 13.9% in 2019-20.⁴ Tanzania's tax revenues are also low by international standards.⁵ During 2011-13, Tanzania had a tax-to-GDP ratio of 11.9% of GDP, well below the average of East African Community (EAC) countries and low income countries, respectively at 13.1% and 14.7% of GDP.

The major recent tax policy change is the new VAT Act, which was passed in February 2015 and became law in July 2015. This broadens the tax base by removing a number of exemptions. Despite this improvement, the IMF notes that more reform needs to be done to bring VAT revenue yield close to the regional average of about 4.5% of GDP in the medium term and more than 6.0% of GDP in the long term.⁶

Tax incentives

The Tanzanian government has committed itself in recent years to reducing tax incentives and has taken some concrete steps to do so, especially through the new VAT law. However, it continues to offer an array of tax incentives to corporations, especially to those operating in the Export Processing Zones (EPZs) and Special Economic Zones (SEZs), and in the oil & gas sector. Companies in the EPZs and SEZs are, for example, given income tax holidays for 10 years and are also exempt from paying withholding tax on interest in respect of foreign loans and on dividends, again for 10 years.⁷

The government now publishes tax exemption reports on the Ministry of Finance website. The most recent annual report shows exemptions granted from July 2015-June 2016, totalling TShs 927 billion.⁸ However, this report does not cover all tax incentives granted; it only covers import duty and VAT exemptions but not, for example, corporate income tax and other exemptions granted in the EPZs. The government still does not publish a figure of all the tax incentives granted.

What also remains untransparent is tax incentives given to individual companies. It is not known what special deals, if any, some companies have been given, although the government has committed to publishing details of agreements signed with companies in the mining sector.

Various estimates have been made on revenue losses from tax incentives in recent years, all of which suggest very high figures. Taking account of various figures, this research estimates that incentives given to corporations (only) may amount to at least \$300 million, and perhaps much more.

Illicit capital flight

The pre-eminent body analysing illicit financial flows, the US-based Global Financial Integrity (GFI), has found that \$7.73 billion in domestic capital drained out of the Tanzanian economy illegally in the five years 2007-11 as a result of trade misinvoicing – an average of \$1.55 billion a year. At the corporate tax rate of 30%, this means that Tanzania lost tax revenues of an average of \$464 million per year.⁹ GFI found that the illicit outflows came exclusively in the form of import over-invoicing, whereby companies are able to reduce their taxable income by increasing the cost of imports as a business expense and avoid paying corporate tax in Tanzania. The fact that capital flight has increased in recent years is especially concerning. GFI asserts that EPZs are a particular source of lost revenues.

In 2014, Tanzania became one of the few countries in sub-Saharan Africa to introduce transfer pricing regulations. The new regulations address the potential mismatch between profit allocation and distribution of risks, assets and functions across the associated enterprises, and require corporations to provide documented evidence that an arm's length amount was paid for goods (both tangible and intangible) and services between related parties. There are stiff penalties for non-compliance, including the possibility of imprisonment.¹⁰

Tax evasion

Tax evasion appears to be widespread in Tanzania, as the evidence presented indicates. The government under President Magufuli has made clamping down on tax evasion a major priority – an extremely welcome policy. Tanzania can make significant efforts in raising more revenue by further clamping down on tax evasion.

The size of the informal sector in Tanzania is not known: some estimates suggest it constitutes at least 40% of GDP¹¹, others 40-60%¹². This research estimates that the government could realistically collect an extra TShs 1.7 trillion (\$761 million) in revenues by taxing some activities in the informal sector.

Recent research by the UN-based Better Than Cash Alliance, using estimates in the *One Billion Dollar Question* report, calculates that the TRA lost nearly \$300 million (TShs 656 billion) to VAT tax evasion in fiscal year 2014–2015 alone – a figure amounting to 43% of VAT collections.¹³ The government estimates that from January-October 2016, it lost revenues worth at least TShs 317 billion (\$143 million) by importers under-valuing the worth of imports.¹⁴ Other reports suggest the figure might be even higher, that importers of fake, counterfeit and substandard goods evade taxes worth TShs 540-900 billion (\$243-\$406 million) per year due to tax evasion (equivalent to between 4.6 and 7.5% of GDP).¹⁵

There is an additional de facto loss of revenues from corruption in the government budget, which diverts money away from supporting public services. Government officials estimate that each fiscal year, corruption is responsible for a 20% loss from the government's budget.¹⁶ This represents

an extremely large loss. In 2016/17 government expenditure was slated to amount to TShs 29.5 trillion¹⁷; of which 20% is TShs 2.9 trillion (\$1.3 billion).

Mining sector

As regards mining only (and not oil & gas), analysis of government figures shows that the government has been significantly increasing its revenues as a proportion of exports in the past three years – from 16% in 2013 to 26% in 2015. The main reason is not increases in royalties but increases in other taxes paid by the mining companies.

Yet few mining companies are paying corporation tax while annual reports by the Tanzania Minerals Audit Agency (TMAA), which audits mining companies, show very large unpaid taxes by some companies. In the three years 2013-15, the TMAA discovered that mining companies investigated (sometimes also including construction companies) were not paying \$688 million worth of taxes that they should have been – an average of \$229 million a year. Based on these figures, this research estimates that the TMAA could discover an extra \$57 million in tax revenues a year.

A number of important improvements have been made in transparency for the extractives sector in recent years. Most significantly, in July 2015 Parliament passed the Tanzania Extractive Industries (Transparency and Accountability) Act, which requires the Minister for Energy and Minerals to publish all concessions, contracts and licences given to extractive companies on a website or through a media platform widely available to the public. However, despite this, most mineral development agreements with mining companies have still not been made public. Petroleum agreements are also yet to be made available either formally or informally.

Local content policies

Local content refers to value-added that is created in the domestic economy as a result of the actions of companies or governments. Local content policies in employment usually refer to the proportion of workers and staff who are nationals of the country of operation. Local content in procurement means where companies are required or encouraged to give preference to buying local goods and services, with the aim of promoting local companies or supply chains.

Tanzania has recently taken significant steps to improve its local content policies to benefit the country, notably by establishing a Local Content Policy for the nascent oil and gas sector and creating a Local Content department in government. However, local content policies lag behind in sectors such as mining and agriculture. As regards the latter, there is no specific local content policy or legislation governing agricultural investments. The consequence is that Tanzania is not benefitting as much as it could from foreign investment.

In the mining sector, the new Tanzania Extractive Industries (Transparency and Accountability) Act requires mining companies to provide information annually on their local content policies but there are no specific benchmarks or targets for companies to meet nor is there a mechanism to monitor compliance.¹⁸ The Mining Act of 2010 reintroduced the requirement for local content – particularly the need for local procurement, and required companies to employ and train citizens of Tanzania and implement a succession plan on expatriate employees. However, in the period 2007–2015, the percentage of expats in the mining sector has remained at 5-8%, an indication that the law has not had any significant effect in increasing employment of Tanzanian nationals.¹⁹

Social protection

Lost tax revenues are urgently needed to improve Tanzania's system for social protection, i.e. both its social services and social security. There is a need to expand health and education budgets but also to enhance the country's nascent cash transfer schemes in order to benefit the country's most vulnerable people as well as the population as a whole. Increasing tax revenues could play a crucial role in this. Over 85% of the population, including almost all informal sector workers, the self-employed and the unemployed, do not have protection in case of vulnerability to life contingencies, livelihood shocks or severe deprivation.²⁰

Tanzania has a variety of social protection programmes, such as school feeding programmes, subsidised food distribution and health insurance, but spending is low. The 2016/17 budget allocated TShs 388 billion to social protection, which amounts to around 1.3% of the government budget.²¹

Some groups vulnerable to malnutrition, such as infants, young children, pregnant women and lactating mothers, have not been covered sufficiently in current social protection programmes.²² There is also a particular need to support people with disabilities and very old people in improved social protection measures. As the UN has recommended, there is also an urgent need to increase and train sector personnel, develop monitoring, referral and response systems, strengthen district and national data collection and promote shared awareness at community and statutory levels of children and women's rights protection.²³

RECOMMENDATIONS

The government should fully implement the recommendations outlined in our previous reports. It should prioritise the areas where the revenue losses are greatest and where policy change can have the most immediate impacts. And in undertaking the following, it should work in partnership with the civil society organisations which are working towards the same ends. The government should:

Tax collections and tax evasion

- Ensure that currently 'under-fiscalised' sectors, such as agriculture, trade, mining, tourism and construction, contribute more and fairly to tax collections.
- Broaden the tax base by raising tax collections across the country (beyond the capital city), beyond a small number of corporate and individual tax payers and to include companies and professional organisations currently in the informal sector, including by expanding ICT-based tax collection systems.
- Continue and deepen the campaign to counter tax evasion.
- Establish greater oversight over spending of the government budget to ensure corruption is minimised.
- Adopt a similar approach to EITI for other sectors, especially tourism and telecoms, to monitor and reconcile large companies' tax payments to government.

Tax incentives

- Ensure the publication of a single but broken down quarterly and annual figure on its tax expenditure. This must include all tax incentives (such as corporate income tax).
- Publish figures on tax expenditure related to the EPZs and SEZs
- Close down gaps in VAT collections by abolishing such incentives for the oil & gas sector.
- Review tax incentives and expenditure related to the EPZs and SEZs and take steps to reduce and eventually abolish these.

Illicit capital flows

- Take greater steps to ensure that all multinational companies, including those in the EPZs/SEZs, and especially in the telecoms, tourism and mining sectors, are importing and exporting goods at arm's length values.
- Continue to increase the capacity of the TRA's International Tax Unit to address transfer pricing, and ensure the conduct of transfer pricing audits of mining and petroleum companies.
- Ensure mechanisms are in place to counter multinational company practices of hedging and thin capitalisation, maintain company ownership details in official records and make these publicly available online.
- Speak up in international fora for all multinational companies, in all sectors, to be required to provide country-by-country financial reporting.
- Publicly condemn the practice of multinational companies using tax havens in their corporate structures and work internationally to abolish this.

Mining sector

- Continue the practice of the TMAA to conduct audits on mining companies, but make these audits public to expose individual company wrong-doing.

- Publish quarterly and annual figures on tax expenditure in the mining sector
- Enhance the process and speed of publishing Mineral Development Agreements
- Ensure that all the provisions of the TEITI are implemented
- Ensure that government efforts to address transfer pricing fully cover the mining sector
- Ensure there is automatic exchange of information between the TMAA and the TRA

Local content policies

- Ensure that mining companies, in addition to providing information annually on their local content policies, are given demanding but realistic specific benchmarks or targets to meet, and that there are mechanisms to monitor compliance. These should be developed in a participatory way, involving all stakeholders.
- Maximise the promotion of local content policies in other key sectors, such as agriculture, to establish employment and procurement targets and to monitor these.

Social protection

- Use some of the extra revenues generated from increased tax collections to significantly deepen social protection systems across the country, covering all citizens.
- Take greater steps to align the various programmes in place and reduce fragmentation, including by finalising the National Social Protection Framework.

INTRODUCTION

In 2012, the Tanzania Episcopal Conference, National Muslim Council of Tanzania and the Christian Council of Tanzania jointly published a report entitled *The One Billion Dollar Question: How Can Tanzania Stop Losing So Much Tax Revenue?*²⁴ The report estimated that Tanzania was losing revenues of between \$847 million and \$1.3 billion a year from a mix of tax evasion, tax incentives and capital flight. This report followed another in 2008, published by the same three organisations, focused on gold mining, entitled *A Golden Opportunity: How Tanzania is failing to Benefit from Mining*.²⁵ That report estimated that Tanzania had lost at least \$265 million in recent years in the mining sector from excessively low royalty rates, tax incentives and tax evasion.

Both these reports made recommendations to the government of Tanzania to halt this drainage of revenues and instead take steps to ensure that these were invested in the welfare of the country's people, especially in providing public services.

The purpose of the present report is threefold, to assess:

- how much revenue Tanzania continues to unnecessarily lose from the same sources
- how far the government has gone, and is going, to halt these revenue losses
- the extent to which the government is implementing the recommendations made in the two previous reports.

Lost revenues has become a key political issue in Tanzania. The two reports received much political and media attention and Tanzanians are more aware than ever of how government policy can either bring in more or less tax revenues. There has long been concern that the mining sector, in particular, is simply not contributing adequately to the country's welfare and has been 'under-taxed'. But suspicions and concerns are also held about the other sectors such as telecommunications, tourism and agriculture.

The urgent need

Government spending on public services and social protection policies is critical:

- Some 47% of Tanzania's 53 million people live on less than \$1.90 a day (2011 figures).²⁶
- An average Tanzanian can expect to live 65 years, well below life expectancy in wealthier countries.²⁷
- 1.7 million Tanzanian children are estimated to be out of school²⁸, the equivalent of 17% of all children enrolled.
- Some 14% of children under five are underweight for their age, a sign of malnutrition.²⁹

In this situation it is crucial to devote all available resources to urgent human needs, including to enhanced social protection policies for the most vulnerable people.

In recent years, Tanzanian governments have taken some important steps to raise more tax revenue, some of which are in line with the recommendations in the two reports noted above. The present government is in the midst of a clampdown on tax evasion. As outlined further below, new legislation has been introduced to raise taxes and reduce tax incentives and exemptions. The capacity of revenue collecting agencies is being strengthened to raise more finances. These are vital, welcome steps.

The analysis here shows, however, that the government needs to go much further. Our estimates suggests that the government is likely losing even more revenues now than suggested in the previous reports. The situation remains critical, and it is incumbent on peoples' elected representatives to address this as a matter of priority and urgency.

1. TANZANIA'S TAXES

'Tax revenues are currently too low to finance the country's ambitious, but vitally necessary, public investment program.' - World Bank³⁰

Tax has become a major political issue in Tanzania and the government is taking various steps to increase tax collections. It has announced plans to fight tax evasion, reduce some tax incentives, widen the revenue base and strengthen the capacity of revenue collecting agencies – all welcome moves. However, our analysis is that the government is still losing considerable revenues unnecessarily. It must take greater steps to increase tax collections and also ensure that these are spent wisely, in order to encourage more voluntary compliance with paying taxes.

1.1 Tax collections

The Tanzanian tax system is built around four main categories of taxes:

- Value Added Tax (VAT) contributes around 25% of revenues
- Income taxes (both personal and corporate) contribute over 40%
- Import duties contribute around 16%
- Excise taxes (paid when purchases are made on specific domestic and imported goods) contribute around 15%.³¹

Table 1: Domestic Revenue Collection Trend: 2007/08–2015/16

	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13	2013/14	2014/15	2014/15	2015/16
	Actual	Budget	Likely	Budget						
Total domestic revenue (including LGAs own source)	3,634,581	4,240,074	4,661,540	5,736,266	7,221,409	8,442,611	11,537,523	12,636,505	11,321,908	13,997,523
A. Tax Revenue	3,359,249.8	4,043,673.0	4,427,833.7	5,293,277.3	6,480,477.8	7,729,985.9	10,395,439.8	11,318,221.9	10,150,631.9	12,362,958.6
Import duty	289,275.6	359,255.3	367,070.1	448,650.2	497,686.8	584,136.9	852,199.0	858,684.9	781,031.0	863,939.7
Excise Duty	660,888.2	762,012.7	837,622.3	1,052,152.2	1,028,883.8	1,258,242.1	1,908,857.0	1,908,185.3	1,686,367.0	1,927,752.7
Value added tax	1,042,489.7	1,231,135.4	1,339,624.3	1,564,641.3	1,974,820.2	2,146,336.7	2,590,291.0	2,568,928.1	2,855,261.1	3,513,989.6
Income tax	983,804.3	1,228,645.8	1,334,019.7	1,660,385.2	2,246,783.7	3,034,359.9	3,653,336.6	4,797,675.0	3,845,411.8	4,553,054.2
Other taxes	382,792.0	462,543.8	467,077.2	601,448.4	732,303.2	700,910.4	1,177,337.3	1,184,748.7	982,093.9	1,504,172.4
B. Non-tax revenue	275,330.8	196,401.3	233,706.6	442,988.8	740,930.9	712,624.9	1,142,082.7	1,318,282.6	1,171,276.1	1,634,564.1
Parastatal dividends	58,253.5	25,865.9	18,630.7	26,154.6	207,352.0	47,602.4	122,047.1	142,413.3	142,393.3	142,532.3
Ministries and regions	172,797.3	155,334.5	177,841.2	231,839.4	311,317.7	414,925.0	614,654.1	717,418.3	570,411.8	757,844.8
Other non-tax revenue	44,281.0	15,200.9	37,234.7	26,714.9	26,736.7	29,262.6	21,929.7			212,363.0
LGAs own source	0.0	0.0	0.0	158,291.0	195,524.5	220,835.0	383,451.8	458,471.0	458,471.0	521,819.0

Source: Ministry of Finance

Source: 2015/15 Budget speech, Table 1

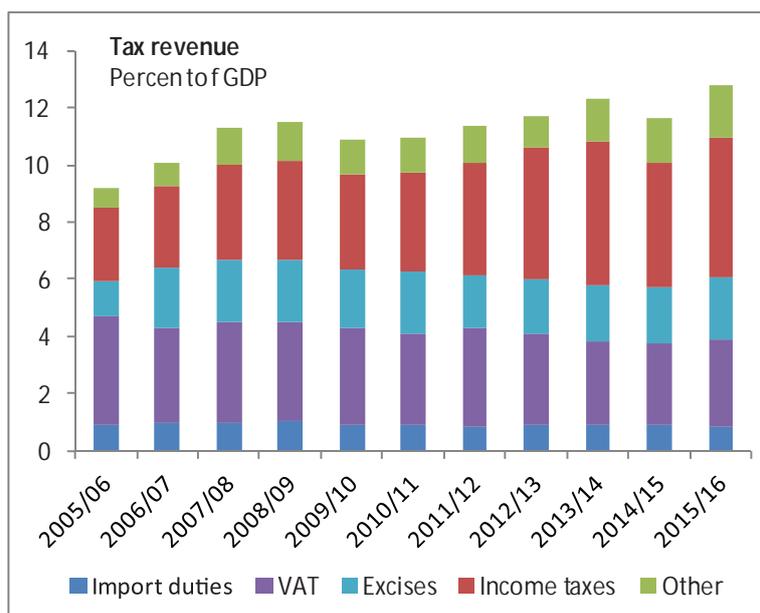
<http://www.mof.go.tz/mofdocs/budget/speech/BUDGET%20SPEECH%20MINISTER%20OF%20FINANCE%20FINAL%20FINAL.pdf>

The low tax take

The Tanzania Revenue Authority (TRA) said it collected TShs 13.4 trillion in taxes in 2015/16, slightly above the amount collected in 2014/15.³² The government announced in the most recent budget speech that a tax collection of 13.8% of GDP (TShs 15.1 trillion) was envisaged in 2016/17 from an estimated 12.6% of GDP in 2015/16.³³

In recent years, however, the proportion of GDP collected in tax has barely increased in Tanzania. Tax revenue performance improved until the late 2000s, but since then progress has been limited, as the following figure illustrates.³⁴

Tax revenues as a proportion of GDP, 2005/06 – 2015/16

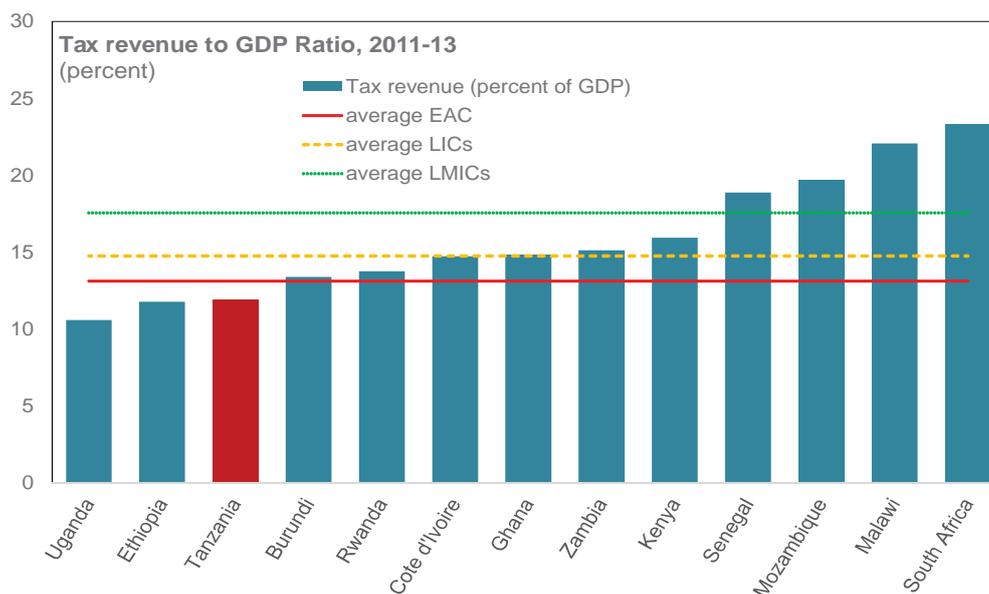


Source: IMF, Staff Report for the 2016 Article IV Consultation, p.30, July 2016, <http://www.imf.org/external/pubs/ft/scr/2016/cr16253.pdf>

Furthermore, tax revenues are not projected to increase much based on current plans: IMF figures suggest an increase from 13.2% in 2016/7 to 13.9% in 2019-20.³⁵

Tanzania's tax revenues are also low by international standards.³⁶ During 2011-13, Tanzania had a tax-to-GDP ratio of 11.9% of GDP, well below the average of East African Community (EAC) countries and low income countries, respectively at 13.1% and 14.7% of GDP. Tanzania had the second lowest tax ratio in the EAC, and also performed relatively poorly compared to economies such as Cote d'Ivoire, Ghana, and Senegal.³⁷

Tax revenues as a proportion of GDP in select African countries



Source: IMF, Staff Report for the 2016 Article IV Consultation, p.13, July 2016, <http://www.imf.org/external/pubs/ft/scr/2016/cr16253.pdf>

1.2 The tax gap

The IMF calculates that the tax revenue gap³⁸ in Tanzania – resulting from a combination of tax administration inefficiencies, tax evasion and tax policy design - was 4.3% of GDP during 2009–13 and is around 2.2–2.8% presently.³⁹ The IMF estimates Tanzania's tax capacity as 15.2–15.8% of GDP – meaning that anything short of this entails lost revenues.⁴⁰

This puts Tanzania's tax gap at around \$1.21 billion (TShs 2.7 trillion) in 2016/17.⁴¹

1.3 Reasons for low tax collections

'The current tax burden is highly inequitable, with a few sectors contributing disproportionately, while others appear to be ignored by the tax authorities'. (IMF⁴²)

There are various reasons for low tax collections, some of which are considered in detail in sections below, such as widespread income tax incentives, tax evasion and the failure to tax the informal sector. In addition:

Tanzania has a high reliance on income taxes rather than on consumption taxes. **The low VAT contribution** in Tanzania is unusual compared to other low income countries.⁴³ Indeed, the World Bank has stated that 'the Tanzanian government's performance in collecting VAT revenues is one of the worst in the world'⁴⁴ - revenues are equivalent to less than 3% of GDP. Some sectors are under taxed and many important contributors to national GDP are almost completely left out of the VAT base. Almost half of Tanzanian VAT revenues on domestic transactions are collected from three sectors - telecommunications, beverages, and cigarettes.⁴⁵ The low VAT collection rate is also explained by the extensive application of exemptions.⁴⁶

Trade tax revenues are also below the average for EAC countries and well below the average for low income countries, partly explained by inefficiencies in customs administration.⁴⁷ Revenue collections from **personal income tax** also remain low, with likely significant underreporting of non-wage income including capital income and capital gains.⁴⁸

The IMF notes that taxation is inequitable and that 'under-fiscalised' sectors include agriculture, trade, mining, construction and tourism (see box).⁴⁹

Inequitable taxation

- Close to 90% of tax revenues are generated by Dar es Salaam, yet the city contributes only 17% of national GDP⁵⁰
- Mwanza accounts for over 9% of Tanzania's GDP, but only 1.2% of its tax revenues⁵¹
- Large enterprises (400 companies), primarily based in Dar es Salaam, contribute almost half of the total value of tax revenues⁵²
- Approximately one third of income tax revenue is collected from the salaries of less than 2% of Tanzania's total population⁵³

1.4 Steps being taken to increase tax revenues

The major recent tax policy change is the new VAT Act, which was passed in February 2015 and became law in July 2015. This broadens the tax base by removing a number of exemptions – the next section provides more details.

Despite this improvement, the IMF notes that more reform needs to be done to bring VAT revenue yield close to the regional average of about 4.5% of GDP in the medium term and more than 6.0% of GDP in the long term.⁵⁴ The government has committed in 2016 to preparing a tax policy strategy which will explore the scope for further reducing some VAT exemptions and improve the VAT refund mechanism.⁵⁵



Chunya, Tanzania- Photo by Greg Rødland Buick

The government has also recently introduced other taxes. In 2013 it brought in a 5% resident withholding tax applicable to all professional or consultancy services, which is applicable to payments to resident companies or branches. In 2014, the government introduced a further withholding tax of 5% applicable to services provided to companies working in the extractive sector. The 2015 Finance Act now requires a withholding tax of 15% be applied to any service provided by a foreign entity.⁵⁶

In the 2016/17 Budget Speech, Finance Minister Philip Mpango outlined a range of ways to increase tax revenues:

- Ensure effective use of electronic systems and devices in revenue collection so as to increase efficiency and minimize revenue losses
- Continue widening the tax base including through formalization of the informal sector
- Strengthening the monitoring of revenue collection in government institutions and agencies
- Continue with measures to control and reduce tax exemptions
- Continue strengthening management and undertake frequent inspections at the ports, airports, and border posts to ensure appropriate tax collection.⁵⁷

The government is also planning in the 2016/2017 financial year to submit to parliament a proposal to repeal section 145 of the Income Tax Act Cap 332 and substitute it with new provisions to deal with taxation of the extractive industry. The main issues will be the introduction of ring-fencing clauses and the introduction of an additional profit tax.⁵⁸

These improvements are important, but, as we analyse below, there remain major gaps.

The IMF notes that there is also significant revenue mobilisation potential through the elimination of corporate income tax holidays and exemptions, the regular adjustment of specific excise rates, and development of property taxation. It adds that 'in the areas of tax administration, the need to step up reforms is pressing'. Areas for policy actions include cleaning up the taxpayer registration and accounting, upgrading the IT system and strengthening compliance risk management.⁵⁹

As the NGO network Policy Forum has stated, there is also scope for **increasing non-tax revenues** such as royalties on mining, fines, charges, levies and fees mobilised by the government which are not derived from taxes. These include contributions and dividends from public corporations, revenues from investment funds, fees for permits and revenues from the sale of state assets. The contribution of non-tax revenues is consistently low at around 1% of GDP in recent years.⁶⁰

2. TAX INCENTIVES

The Tanzanian government has committed itself in recent years to reducing tax incentives and has taken some concrete steps to do so, especially in introducing a new law in 2015 to reduce VAT exemptions. However, it continues to offer tax incentives to corporations, especially to those operating in the Export Processing Zones (EPZs) and Special Economic Zones (SEZs), and in the oil & gas sector.

2.1 Progress in reducing incentives

The main plank of the government's attempt to reduce tax exemptions has been the VAT Act, which contains two significant changes:

- First, it significantly reduces the items and persons/companies eligible for VAT exemptions and infers that new investors in the EPZs and SEZs will not be given VAT exemptions.
- Second, the new Act severely limits the power of the Finance Minister to grant *discretionary* VAT incentives. It specifies that the Minister may only grant exemptions to imports of goods and services that are to be used solely for relief of natural calamities. The presumption is that any VAT exemptions must be approved by the Tanzanian parliament.⁶¹ This is clearly an important change.



Gold Mining, Geita, Tanzania- Photo by Allan Lisner

However, these positive changes are mitigated by some qualifications:

- It appears that the VAT exemptions already given to existing investors in the EPZs and SEZs will continue to apply.⁶²
- Similarly, existing oil and gas investors will continue to enjoy the same VAT relief as under the old VAT Act, thus their imports will continue to be VAT-exempt.
- New oil and gas investors will also be largely exempt from paying VAT during exploration and prospecting phases (but not in the development phase).⁶³
- Clearly the VAT Act applies only to VAT exemptions and not to other taxes, some of which continue to be subject to incentives.

In addition, the government has also taken some steps to reduce some corporate income tax exemptions - for example, on the gaming and telecoms industry - and to restrict the power of the Minister to grant some income tax exemptions, such as on excise duty on petroleum products.⁶⁴ In the mining sector, the government in 2014 increased the royalty rate for gold (and copper) from 3% to 4%, as specified in the 2010 Mining Act.⁶⁵

In the 2016/17 Budget Speech, the Minister Philip Mpango committed to policies 'aimed at minimizing unproductive tax exemptions'.⁶⁶ He added:

'The Government will amend relevant legislations in order to address tax exemption abuses. These amendments will be incorporated in the Finance Bill 2016. Among other things, the amendments will require beneficiaries to pay taxes and apply for refunds which will be reimbursed upon verification'.⁶⁷

Improvements in transparency?

A further positive development is that the government has committed itself to publishing quarterly tax exemption reports on the Ministry of Finance website and by providing an annual report to Parliament on all tax exemptions granted. It has published such quarterly reports since April 2015.⁶⁸ **The most recent annual report shows exemptions granted from July 2015-June 2016, totalling TShs 927 billion – see further below.⁶⁹ However, this report does not appear to cover all tax incentives granted; it only covers import duty and VAT exemptions but not, for example, corporate income tax and other exemptions granted in the EPZs.**

What also remains untransparent is tax incentives given to individual companies. It is not known what special deals, if any, some companies have been given, although the government has committed to publishing details of agreements signed with companies in the mining sector (see later section).

2.2 Ongoing tax incentives

Tanzania still provides an array of tax incentives to investors. The government has stressed that 'in spite of the intention to reduce tax exemptions', it will continue to provide these to 'attract super strategic investors'. The latter are companies investing at least \$300 million, for which incentives will be available provided that investment is channelled through local financial institutions and that at least 1,500 jobs for Tanzanians are created. The government has also said that 'it is critical that such exemptions are granted in a transparent manner and that a mechanism for monitoring and evaluation is in place for beneficiaries to be accountable'.⁷⁰ In April 2015, it was reported that Mary Nagu, then Minister of State for Communication and Policy Coordination, was intending to introduce a set of new investment incentives in a number of key sectors including agriculture.⁷¹

A 2014 public expenditure study on tax exemptions identified more than 160 exemptions to current

tax laws, and recommended that half of these should be removed or amended. Some of these, but not all, will be addressed to some degree by the new VAT Act.⁷²

In particular, companies in the EPZs and SEZs receive numerous incentives: they are, for example, given income tax holidays for 10 years and are also exempt from paying withholding tax on interest in respect of foreign loans and on dividends, again for 10 years.⁷³ In 2015, the government was expecting to register 25 more companies in the EPZs, which would bring the number to 155.⁷⁴ According to the government, companies in the EPZs and SEZs have invested over \$1.1 billion and created over 27,000 direct and 100,000 indirect jobs, while their exports have reached \$700 million. The government has earmarked EPZ/SEZ sites in 19 regions where each site is between 500 – 9,000 hectares.⁷⁵

The EPZ programme in Tanzania was established in 2002 to encourage export led economic growth. The government established SEZs in 2006 as strategy to promote quick and significant progress in economic growth, export earnings and employment creation as well as attracting foreign and domestic investment.⁷⁶ Any company with a minimum annual export turnover of \$0.5 million is eligible for the tax incentives in the EPZs and SEZs.⁷⁷

Tax incentives in Tanzania

The Export Processing Zone (EPZ) tax incentives include the following:

- Exemption from corporation tax for 10 years
- Exemption from withholding tax on rent, dividends, interest and royalty for 10 years
- Remission of customs duty, excise duty, other tax for goods used as raw materials, equipment, machinery etc. directly relating to the manufacturing activities
- Exemption from payment of all taxes and levies imposed by the local government authorities for products produced for a period of 10 years
- Exemption from pre-shipment or destination inspection requirements⁷⁸

Special Economic Zones (SEZ) provide incentives depending on the category of the investor, including:

- Exemption from payment of taxes and duties for machinery, equipment, heavy duty vehicles, building and construction materials and any other goods of capital nature to be used for the purpose of the development of the SEZ infrastructure
- Exemption from payment of stamp duty on any instrument executed in or outside the SEZ relating to transfer, lease or hypothecation of any movable or immovable property in or situated within the special economic zone or any document, certificate, instrument, report or record relating to any activity, action, operation, project, undertaking or venture in the SEZ
- Exemption from payment of VAT on utility charges
- Exemption from pre-shipment or destination inspection requirements
- Treatment of goods destined into SEZ as transit cargo
- Remission of customs duty, VAT and any other tax charged on raw materials and goods of capital nature related to the production in the SEZ.⁷⁹

Tax incentives can also be provided to investments given Special Strategic Investment Status, defined as those which invest more than \$300 million and create at least 1,500 jobs.⁸⁰

Mining sector tax incentives are considered in section 5 below.

In addition to private companies, some government and religious institutions also receive tax exemptions, though their extent is not clear although likely to be very low in comparison. In the 2016/17 budget, for example, the Finance Minister signalled continuing tax exemptions to religious institutions and rescinded the system that had required them to pay tax first and then apply for refund, no longer requiring the payment of tax upfront.⁸¹

2.3 Revenue losses from tax incentives

Various estimates have been made on revenue losses from tax incentives in recent years, all of which suggest very high figures, as shown in the following table. The most recent government figure is **TShs 927 billion (\$429 million) in 2015-16, but this does not include all incentives**. This figure is likely to factor in reductions in VAT exemptions achieved by the VAT Act, which became operational in July 2015: the government has said this Act would increase revenue collections by \$500 million a year.⁸²

Revenue losses from tax incentives, 2008-2016

2008	TShs 1.8 trillion (\$1.23 billion), or 6% of GDP ⁸³
2011/12	2.5% of GDP, as stated by the Finance Minister. ⁸⁴ This would amount to around TShs 1.0 trillion. ⁸⁵
Years 2008/09–2009/10	<i>minimum</i> revenue loss from tax incentives granted to companies alone was around TShs381 billion (\$266 million) a year ⁸⁶
2012/13	\$793 million, stated in media report citing the TRA. ⁸⁷ This would amount to around 2.6% of GDP. ⁸⁸
2013/14	TShs 1.8 trillion, or 2.5% of GDP ⁸⁹ \$964 million ⁹⁰
July 2014–April 2015	TShs 1.3 trillion (\$747 million), or 1.4% of GDP. ⁹¹ Projected to rise to rise to 1.5% of GDP (\$790 million) by end of full year
July 2015-June 2016	TShs 927 billion ⁹² (\$429 million ⁹³) <i>But covers only import duty and VAT exemptions.</i>

The government does not publish a figure for all its tax expenditure (i.e., revenue losses from all tax incentives/exemption) which would include incentives given to companies in the EPZs and SEZs and for corporation tax. The *One Billion Dollar Question* report cited government figures showing that 56% of all incentives then granted were given to corporations. It is likely that roughly the same percentage – around 50% - of all incentives granted – are for corporations. This would mean annual revenue losses to corporations of \$215 million, based on the most recent figure (\$429 million) cited above. However, as noted, this does not include all tax incentives or those given to companies in the EPZs and SEZs and for corporation tax. **Including these is likely to generate a figure of at least \$300 million, and perhaps much more.**

Before the introduction of the VAT Act – and probably still – the government was losing a large amount of VAT tax revenues. Figures provided by the government show VAT exemptions granted to large taxpayers resulted in revenue losses of TShs 442 billion (\$271 million) in 2013 and TShs 306 billion (US\$185 million) from January-September 2014.⁹⁴ Tanroads, the domestic road authority, was the largest recipient of VAT exemptions, but of the foreign companies granted VAT exemptions, two received more than any others – Norway's Statoil and Britain's gas corporation, BG Group. Together, these two companies were given VAT exemptions worth \$186 million in 2013-14. Given that the new VAT Act will not eliminate the exemptions granted to these companies, continuing large revenue losses can be expected in future.

VAT exemptions granted to large taxpayers January 2010 to September 2014

	2013	2014 (Jan-Sept only)
Total value of VAT exemptions provided to large taxpayers	TShs 442 billion (\$271m)	TShs 306 billion (\$185m)
<i>Of which</i>		
Statoil	TShs 93.3 billion (\$57.2m)	TShs 47.4 billion (\$28.6m)
BG	TShs 92.7 billion (\$56.8m)	TShs 71.5 billion (\$43.1m)

Source: 'Exemptions granted to large taxpayers January, 2010 to September, 2014', <http://www.mof.go.tz/mofdocs/exemptions/Exemptions%20granted%20to%20large%20taxpayers%20%20January,%202010%20%20to%20September,%202014>
 Exchange rates: mid-2013: TShs 1,631/\$; mid-2014: TShs 1,657/\$



Haydom Lutheran Hospital, Manyara, Tanzania

Tax incentives are not needed in Tanzania

The government remains committed to the tax incentives in the EPZs and SEZs, arguing that they are needed to attract and retain foreign investment. Indeed, it argues specifically that the benefits of these tax incentives outweigh their costs.⁹⁵

Yet a host of independent reports suggest that Tanzania is unnecessarily losing revenues and that tax incentives are not needed. A report conducted in 2013 for Tanzania's Ministry of Finance by the consultancy, CRC Sogema, and which is housed on the Ministry's website, concluded that:

'In countries with poor investment climates – that includes Tanzania and other developing countries – the effect [of providing tax incentives] is also non-existent... It is more efficient for developing countries to focus on improving their investment climate rather than granting tax exemptions to corporations'.

The study also recommended that Tanzania entirely remove exemptions on corporate profits.⁹⁶

The World Bank notes a recent study showing that the costs of tax incentives for government do not usually justify the benefits. The Bank looked at 20 firms in Tanzania to assess whether tax incentives were beneficial. It concluded:

'Despite the small size of the sample, the evidence suggests that overall, tax exemptions are not a key determinant of business investment decisions in Tanzania. For the majority of businesses, tax exemptions also do not appear to influence growth strategies'.⁹⁷

Similarly, the IMF notes:

'Tanzania offers extensive tax incentives for companies located in special economic zones (SEZ) and export processing zones (EPZ), including 10-year exemptions (holidays) from income tax, withholding taxes, property tax and other local government taxes and levies. While it is difficult to assess the magnitude of revenue forgone from the income tax holidays since tax exemption data only include indirect taxes, they do conflict with good tax policy principles and introduce a risk of income tax evasion through transfer pricing between resident companies located inside and outside the zones. There is a need to review these incentives and consider eliminating them'.⁹⁸

Tanzania may also be losing revenues from double taxation agreements (DTAs)⁹⁹ it has signed with other countries, although no estimates are available. Tanzania has signed DTAs with nine countries: Sweden, Canada, Denmark, Finland, Norway, India, Italy, Zambia and South Africa. Most of these DTAs are old and contain taxation regimes that surrender Tanzania's taxing powers in favour of partners. The DTAs have capped withholding tax rates that can be levied on interest, dividends and royalties, for example the South African DTA, which is the latest treaty signed in 2005, sets withholding tax rates at 10%. The DTAs also limit Tanzania's taxation of profits derived from air and shipping operations.¹⁰⁰

2.4 Conclusion: Is the government implementing our recommendations?

The *One Billion Dollar Question* report made a number of recommendations to the government on tax incentives and tax transparency (see box). The government is implementing some but not all of these.

On tax incentives, the government is taking steps to reduce these, notably through the VAT Act (recommendation 1) and is publishing some figures on its tax expenditures (recommendation 2). It is, not however, providing a full tax expenditure analysis for the public. Moreover, it is not sufficiently reducing the tax incentives granted in the EPZs and SEZs. Neither does it appear to be sufficiently promoting coordination in the East African Community to foster a regional approach.

On the tax transparency recommendations, the government has made significant progress. Through the Extractive Industry Transparency Initiative (EITI) process (see section 5), which has been the subject of legislation, the government is enabling the public to see the tax payments made by individual extractives companies (recommendation 1). The government is also building the capacity of the TRA to monitor transfer pricing by companies (see section 3) and increase tax collections, although it is doing little to specifically increase the capacity of MPs and civil society to monitor taxation issues.

Previous recommendations: Tax incentives

1. Undertake a review, to be made public, of all tax incentives with a view to reducing or removing many of them. The aim should be to remove most if not all of the tax incentives granted to the mining sector and to reduce or remove many of those granted in the EPZs. Those tax incentives that are subject to discretionary power by Ministers must be removed. What tax incentives remain should be linked to performance requirements for sectors, such as employment creation and technology transfer.
2. Provide annually, during the budget process, a publicly available tax expenditure analysis, showing the cost to the government of the various tax incentives and the beneficiaries. The government should provide details on these in its EITI reports.
3. Promote greater coordination in the East African Community to address harmful tax competition, agreeing on minimum rates for certain taxes, to avoid harmful tax competition.

Previous recommendations: Tax Transparency

1. Go beyond the provisions of the voluntary EITI scheme and introduce legislation to compel all foreign companies operating in Tanzania to provide details of their tax payments to the Tanzanian government and make this information publicly available.
2. Support international calls that would require transnational corporations to provide details of their tax payments to governments by country ('country by country reporting').
3. Take steps to increase government and donor support to build the capacity of MPs and civil society to monitor taxation issues in Tanzania.

3. ILLICIT CAPITAL FLIGHT

Developing countries lose vast amounts of revenues through tax dodging by multinational companies. The key method for which figures are available is trade misinvoicing – deliberately misreporting the value of imported or exported goods to reduce tax payments.¹⁰¹ Evidence suggests Tanzania is continuing to lose large revenues from this method, among others.

3.1 Revenue losses from trade mis-invoicing

The pre-eminent body analysing illicit financial flows, the US-based Global Financial Integrity (GFI), has produced two recent reports giving figures for Tanzania. One estimates that all illicit flows from Tanzania amounted to an average of \$677 million a year in the most recent five year period for which figures are available (2009-13). Of this, \$129 million was due to trade misinvoicing and \$548 million was due to illicit hot money outflows.¹⁰² This would result in lost tax revenues of around \$203 million a year (based on the 30% corporate income tax rate).

However, another GFI report, focusing more explicitly on Tanzania, found that \$7.73 billion in domestic capital drained out of the economy illegally in the five years 2007-11 as a result of trade misinvoicing – an average of \$1.55 billion a year. (See table below). At the corporate tax rate of 30%, this means that Tanzania **lost tax revenues of an average of \$464 million per year**.¹⁰³ The table below also shows that these illicit outflows, which total \$8.3 billion over the 10 year period, have been significantly rising in recent years.

Tanzania: Trade Misinvoicing Vis-à-Vis the World, 2002-2010 (\$ millions)

Year	Export Misinvoicing		Import Misinvoicing		Illicit Outflows (A+D)	Illicit Inflows (C+B)	Gross Illicit Flows	GDP	Total Trade	Total ODA	Gross flows as percent of GDP	Gross flows as percent of Trade	Gross flows as percent of ODA
	Under-Invoicing (A)	Over-Invoicing (B)	Under-Invoicing (C)	Over-Invoicing (D)									
2002	274	0	-1,073	0	274	1,073	1,347	4,200	2,353	2,219	32.07%	57.25%	81.04%
2003	14	0	0	153	167	0	167	4,700	2,798	1,048	3.55%	5.97%	23.91%
2004	0	0	-274	0	0	274	274	5,700	3,539	1,243	4.81%	7.74%	37.39%
2005	239	0	-328	0	239	328	567	6,600	4,191	1,297	8.59%	13.53%	74.41%
2006	0	0	0	259	259	0	259	7,100	5,250	1,639	3.65%	4.93%	27.52%
2007	163	0	-55	0	163	55	218	8,000	5,462	1,777	2.73%	3.99%	20.24%
2008	0	-525	0	561	561	525	1,086	9,900	6,661	1,996	10.97%	16.30%	80.74%
2009	0	-186	0	102	102	186	288	9,700	5,911	2,012	2.97%	4.87%	22.34%
2010	569	0	-491	0	569	491	1,060	9,210	7,600	1,952	11.51%	13.95%	77.97%
Average	140	-79	-247	119	259	326	585	7,234	4,863	1,687	8.98%	14.28%	49.51%
Cumulative	1,259	-711	-2,221	1,075	2,334	2,932	5,266	65,110	43,765	15,183

Source: Global Financial Integrity, *Hiding in Plain Sight: Trade Misinvoicing and the Impact of Revenue Loss in Ghana, Kenya, Mozambique, Tanzania, and Uganda: 2002-2011*, p.32,

http://www.gfintegrity.org/wp-content/uploads/2014/05/Hiding_In_Plain_Sight_Report-Final.pdf

GFI found that the illicit outflows came exclusively in the form of import over-invoicing, whereby companies are able to reduce their taxable income by increasing the cost of imports as a business expense and avoid paying corporate tax in Tanzania. GFI notes:

'The vast majority of the import over-invoicing transactions are fuel imports, which have an import duty exemption for mining companies. This suggests that mining companies could be over-inflating their import costs to shift capital out of Tanzania illicitly with the added kick-back of lower taxable income due to artificially inflated inputs. The drastic rise in import over-invoicing that began in 2008 coincides with the implementation of the country's Export Processing Zones (EPZ). Investors who establish firms in EPZs are granted import-duty exemption on raw materials used in the production of manufacturing goods as well as a 10-year corporate tax holiday. The elimination or easing of import duties provides a perverse incentive to move capital out of the country illicitly through import over-invoicing. The loss of revenue and the loss of capital available domestically for development undermine the benefits of the EPZs for Tanzania's economy and development.'¹⁰⁴

The fact that capital flight has increased in recent years is especially concerning. The linkage to the EPZs is also important, given that EPZs are also a source of lost revenues through tax incentives.

GFI says the vast majority of trade that is mis-invoiced occurs with Switzerland and, to a lesser extent, Singapore. Although only 6% of Tanzania's imports from advanced economies come from Switzerland and Singapore, the latter represent over 67% of total import mis-invoicing over the 10 year period of the GFI study. Over 25% of total import misinvoicing in Tanzania since 2002 was the mis-invoicing of fuel imports from Switzerland alone.¹⁰⁵ Of course, this is not actual trade with Switzerland, but trade booked through Switzerland on paper by multinational companies.

GFI calls on Tanzania to

'establish[...] a system to ensure that firms operating in EPZs are importing and exporting goods at appropriate value... [which], even if untaxed, would ensure capital remains in the Tanzanian economy to drive its development and would provide the government with more accurate data for better understanding the complete economic picture'.¹⁰⁶

The telecoms, tourism and mining sectors are all known to be involved in trade mis-invoicing and other tax dodging:

- The tourism industry is a major contributor to the economy, but, the UK's Department for International Development (DFID) notes, the sector has been subject to abuse, with 'overseas based tourism operators routinely manipulating pricing structures to ensure that a greater part of their profits fall outside of the Tanzanian jurisdiction'.¹⁰⁷
- In April 2016, President Magufuli suspended the head of the telecoms regulator, saying the watchdog had failed to monitor the industry, resulting in the loss of potential tax revenues of TShs 400 billion (\$182 million) a year since 2013.¹⁰⁸

Stashing the cash abroad

It is not known how much wealth Tanzanians own abroad or offshore. Recently leaked documents from the Swiss arm of HSBC bank showed that 99 Tanzanians had TShs 205 billion (\$114 million) in 286 bank accounts in just one bank in Switzerland in 2006/07. Some could have engaged in impropriety, given that Section 10 of Tanzania's Foreign Exchange Act of 1992 prohibits the transfer of currency from the country without the approval of the central Bank of Tanzania. The maximum amount of money associated with one client connected to Tanzania was TShs 37 billion (\$20.8 million).¹⁰⁹

3.2 Transfer pricing regulation

In 2014, Tanzania became one of the few countries in sub-Saharan Africa to introduce transfer pricing regulations. Until this time, Tanzania had been relying on Section 33 of the Income Tax Act (ITA) to regulate transfer pricing between related companies, which requires persons who are associates to calculate chargeable income as if the arrangement had been conducted at arm's length.¹¹⁰ The new regulations address the potential mismatch between profit allocation and distribution of risks, assets and functions across the associated enterprises, and require corporations to provide documented evidence that an arm's length amount was paid for goods (both tangible and intangible) and services between related parties. There are stiff penalties for non-compliance, including the possibility of imprisonment.¹¹¹ The question of how exactly the arm's length principle should be applied is therefore something that all multinationals in Tanzania will be required to address. Unfortunately, however, this principle is inherently difficult to determine in practice due to the wide range of external economic factors and pricing variables at play.¹¹²

Within the TRA's Large Taxpayer Department, an International Tax Unit (ITU) was established in 2011 and aims to build expertise in transfer pricing to ensure that revenues are properly harnessed.¹¹³ The TRA's transfer pricing-related manpower and technical expertise has improved considerably, and the ITU has 12 staff, the majority of whom have been trained as transfer pricing specialists.¹¹⁴ Since the introduction of the new transfer pricing regulations in 2014, the ITU has, as of early 2016, undertaken five audits in the manufacturing and tourism sectors amounting to TShs 232 billion in tax adjustments. However, a recent analysis notes that the ITU has been slow to begin transfer pricing audits of mining and petroleum companies and that the Tanzania Minerals Audit Agency (TMAA) and Tanzania Petroleum Development Corporation (TPDC) had not by 2016 received training on transfer pricing. This is due to three key issues: weak internal and inter-agency coordination, limited extractive industry expertise, and difficulties obtaining relevant comparable data.¹¹⁵

The researchers for the present report asked the Board of Trade how it was addressing the problem of illicit flows. It replied:

'In cognizant of the magnitude of the problem as evidenced by the existing literature, the Bank of Tanzania in collaboration with the Royal Norwegian Embassy commissioned two international consultants to undertake an in-depth study on illicit financial flows from Tanzania in 2014 – 2015, with a view to establish the size, composition, magnitude, drivers and types of illicit flows existing in the country. It is worth reporting that the study was successfully completed in February 2016 and submitted to the Government for information and action. However, the Bank of Tanzania is currently working with other stakeholders who were involved in the report preparations to look for modalities of disseminating the results this year to other stakeholders and the public in general.'¹¹⁶

This report has unfortunately not been made public.

3.3 Remaining challenges

Tanzania faces several remaining challenges to ensure that companies do not dodge taxes and that revenues stay in the country. These include:

Hedging¹¹⁷

There is a lack of adequate mechanisms on 'hedging' to ensure that companies, especially, extractive companies, do not engage in abusive hedging to offset income.¹¹⁸ Currently, hedging losses are deductible from company income in Tanzania. However, the TRA is keen to change this practice,

proposing to separate hedging losses and gains from the primary business unit so as to limit risk to the tax base. According to a TRA official interviewed for a recent report, 'hedging is done outside of Tanzania, you are told by companies that they have hedged, but you lack the secondary information to verify this'.¹¹⁹

Thin capitalisation¹²⁰

The 2010 Finance Act introduced a debt-to-equity ratio for companies of 70:30 and the government has managed to negotiate with extractive companies in Tanzania to adopt this provision. According to the TMAA, the thin capitalisation provision has reduced interest deduction claims from mining companies but the TRA remains aware of the need to monitor interest rates on loans from affiliates. The 2010 Finance Act requires taxpayers to demonstrate that loans have not been given by a connected company in order to qualify for interest deductibility, but a concrete definition is lacking. The new Petroleum Act of 2015 has introduced a specific rule that interest rates on loans from affiliate companies should not exceed the lowest market rate available for such loans. This specific rule should be adopted more generally.¹²¹

Transparency

There is a need to maintain company ownership details in official records and to require that these are publicly available online.¹²² There is also a need to require company accounts to be available in the public record. In addition, Tanzania, like most other countries, still does not require companies to provide country-by-country financial reporting.¹²³

International body

There is need for the government to support the establishment of an intergovernmental tax body that is tasked with addressing global tax policy, rather than the current Organisation for Economic Cooperation and Development (OECD) led process that does not equally include all countries, including Tanzania. A cohesive global system will make it simpler for tax administrations across the world to communicate and cooperate and remove the existing complicated web of thousands of bilateral tax treaties in the international tax system and streamline the diverse parallel international systems.¹²⁴

Tax information exchange

Global Financial Integrity notes that Tanzania does not have effective systems in place for tax information exchange with other countries, since the government has not signed the Convention on Mutual Administrative Assistance in Tax Matters. Some governments have signed numerous bilateral information exchange agreements instead of or in addition to the Convention, but the Tanzanian government does not seem to have pursued this avenue. GFI notes that this information asymmetry puts the government at a serious disadvantage for collecting the revenue it is owed and for understanding where its illicit outflows may be going.¹²⁵

In addition, Tanzania is not doing enough to counter the use of tax havens by companies operating in the country.

3.4 Use of tax havens

Companies' use of tax havens increases the risk of tax avoidance by enabling them to use group structures to book profits or revenues in low tax jurisdictions. The following table highlights a selection of large extractives and telecoms companies operating in Tanzania which use tax havens. The list is not accusing any individual companies of wrong-doing.

Use of tax havens by select corporations operating in Tanzania

Extractives	
Acacia Mining	Incorporated in UK. Has 3 subsidiaries in the Cayman Islands, one in Mauritius and one in Barbados ¹²⁶
AngloGoldAshanti	Incorporated in South Africa. Has one subsidiary in the Isle of Man and one in Jersey ¹²⁷
Petra Diamonds	Incorporated in Bermuda ¹²⁸
Shanta Gold	Incorporated in Guernsey ¹²⁹
Bezant Resources	Incorporated in UK. Has one subsidiary in the British Virgin Islands ¹³⁰
Ophir Energy	Incorporated in the UK. Has 24 subsidiaries in Jersey, 14 in the British Virgin Islands, 3 in Bermuda and 3 in Delaware ¹³¹
Stratex International	Incorporated in the UK. Has a 100% owned subsidiary in Switzerland and a 33% owned subsidiary in Jersey ¹³²
Wentworth resources	Incorporated in Canada. Has 3 subsidiaries in Jersey and one in Mauritius ¹³³
Statoil	Incorporated in Norway. Has one subsidiary in Switzerland ¹³⁴
Telecoms	
Bharti Airtel Tanzania	Incorporated in India. Has 25 subsidiaries in the Netherlands and one in Jersey ¹³⁵
Millicom (owns Tigo Tanzania)	Incorporated in Luxembourg. Has 4 subsidiaries in the Netherlands ¹³⁶

3.5 Conclusion: Is the government implementing our recommendations?

The *One Billion Dollar Question* report made a number of recommendations to the government on trade mis-pricing and capital flight (see box). The government is implementing some but not all of these.

The first two recommendations have not been met. Recommendation 1 referred to a TRA analysis of revenue losses from transfer pricing which was being undertaken at the time, but which has not been made public. The Board of Trade told the researchers that:

'Given the sensitivity of the information contained in the report it will not be possible for now to release a copy of the study to anyone until the dissemination modalities are agreed upon by the Bank and other institutions that were involved in the study'.¹³⁷

Recommendation 2 called for the government to undertake an analysis, made public of the extent of trade mis-pricing in Tanzania. As noted above by the Board of Trade, an analysis of illicit financial flows has been undertaken but has not been made public.

On recommendation 3, the government is taking important steps to increase training of officials to address transfer pricing and capital flight and has built capacity in this area, as noted above. This is also contributing to recommendations 4 and 5 – ensuring that companies provide to the TRA details of their sales pricing and that they trade at arms' length. However, the capacity that exists is

not sufficient to cover all sectors and companies, meaning that Tanzania is far from ensuring these recommendations are being comprehensively met – thus the country is continuing to lose vast amounts of resources.

Previous recommendations: Trade mis-pricing/capital flight

1. Make public the TRA's report on transfer pricing.
2. Undertake an analysis, to be made public, of the extent of trade mis-pricing in Tanzania.
3. Increase training of officials to recognise transfer pricing and capital flight issues in key sectors, such as mining, and build a stronger capacity to respond to the problem.
4. Take steps to ensure implementation of the requirement by companies to provide to the TRA details of their company sales pricing.
5. Ensure that the standard ethical procurement principle for associate companies to trade at arm's length is implemented.

4. TAX EVASION

“We are determined, we will fight against tax evasion without fearing anybody”. Finance and Planning Minister Philip Mpango¹³⁸

Tax evasion is widespread in Tanzania. The Tanzanian Revenue Authority informed the researchers that practices included under reporting taxable income, overestimating the amount of deductions allowable, claiming false deductions and failing to file tax returns.¹³⁹ Tanzania can make significant efforts in raising more revenue by further clamping down on tax evasion.

4.1 The government’s clampdown on tax evasion

The government under President Magufuli has made clamping down on tax evasion a major priority – an extremely welcome policy. A number of high-profile measures have already been taken. For example, soon after taking office, Magufuli made a surprise visit to the TRA and revealed that 14,000 containers were released through Dar es Salaam’s port without tax clearances, highlighting tax avoidance. Over 100 TRA officers have been relocated from Dar es Salaam to other regional offices.¹⁴⁰ Action has also been taken against other state officials and the private sector.

Political action against tax evasion is vital in Tanzania. It is well-known that hundreds of millions of dollars have been looted through various scandals such as Meremeta, Mwananchi Gold, Tegeta Escro Account and BAE Systems radar.¹⁴¹ In 2014, donors suspended \$490 million in general budget support after it was revealed that ministers had siphoned up to \$180 million from the Central Bank, using energy company escrow accounts.¹⁴²

Reports suggest that government actions are also resulting in greater revenues. It was reported in December 2015, for example, that the government’s new measures to curb tax evasion helped the Tanzania Revenue Authority collect over TShs 1.3 trillion in less than two months.¹⁴³ The government has said it is planning to establish a Corruption and Economic Crimes Court and is allocating more funds to the Prevention and Combating of Corruption Bureau and Controller and the Auditor General to better manage public expenditures.¹⁴⁴

Yet Tanzania is yet to seriously tackle the deeper structural issues that have allowed tax evasion and corruption to thrive for so long. One major problem is low pay for civil servants, which encourages a culture of graft. A second is the involvement of senior ruling party politicians in corrupt activities.¹⁴⁵ These issues must also be placed more firmly on the agenda.

4.2 Revenue losses from tax evasion

There are a large number of ways in which Tanzania is losing revenues to tax evasion. These include the following:

Informal sector

Formalising the informal sector, or at least many activities within it, could raise massive revenue for the country, provided that efficient mechanisms can be found for raising taxes. The size of the informal sector in Tanzania is not known: some estimates suggest it constitutes at least 40% of GDP¹⁴⁶, others 40-60%¹⁴⁷. The Economic and Social Research Foundation has estimated that the revenue lost from not taxing the informal sector amounts to 35-55% of the total tax revenue.¹⁴⁸ This figure was used in the *One Billion Dollar Question* report. From that figure, it was calculated that if one quarter of these revenues were collected in tax, this would raise extra revenues of TShs 350–600 billion a year (\$220 - \$377 million). Using the government's tax collection projection of TShs 15.1 trillion in 2016/17, if 35-55% of this collection is lost to the informal sector and the government could realistically collect one quarter of this, this would amount to an extra **TShs 1.7 trillion (\$761 million) in revenues**.

Taxing the informal sector

The informal sector employs around 70% of the work-force. The TRA states that only 1.6 million out of a potential 15 million Tanzanians pay taxes.¹⁴⁹ Sectors in the informal sector that make a disproportionately low contribution to taxes include agriculture, construction and trade. Only some of these are genuinely hard to tax: for example, there are over 7,000 construction businesses that report five or more employees and that should be quite visible to the tax authorities.¹⁵⁰ Many professional consultancies are also believed to avoid paying taxes: withholding tax collection (at 5% of the contract amount), for example, is extremely low by international standards. This figure is also very low compared to public procurement contracts awarded to the consultants in tenders.¹⁵¹

VAT tax evasion

Recent research by the UN-based Better Than Cash Alliance, using estimates in the *One Billion Dollar Question* report, calculates that the TRA lost **nearly \$300 million (TShs 656 billion)** to VAT tax evasion in fiscal year 2014–2015 alone – a figure amounting to 43% of VAT collections. Since then the study notes, efforts by the TRA to increase compliance will have narrowed the revenue loss gap.¹⁵²

Under-valuing and faking imports

The government estimates that from January-October 2016, it lost revenues worth at least **TShs 317 billion (\$143 million)** by importers under-valuing the worth of imports.¹⁵³ Other reports suggest the figure might be even higher, that importers of fake, counterfeit and substandard goods evade taxes worth **TShs 540-900 billion (\$243-\$406 million) per year** due to tax evasion (equivalent to between 4.6 and 7.5% of GDP). A report by the Confederation of Tanzanian Industries estimates that revenue losses are highest with regard to industrial equipment, motor vehicle spare parts and agricultural inputs. The problem of counterfeiting is reinforced by weak legislation while Tanzania has a highly porous border that has little surveillance.¹⁵⁴

Forest revenues

By 2013, Tanzania was losing almost **TShs 93 billion (\$57 million) a year** in forest revenues according to a Traffic report (a project of WWF and the IUCN) as dealers bypass taxes on forest products.¹⁵⁵ The 2007 Traffic Report also revealed how millions of dollars worth of timber revenues are lost due to poor governance and rampant corruption in the sector.¹⁵⁶

Total revenue losses from tax evasion

It is hard to estimate an overall figure due to possible double-counting in various figures. As noted above, the IMF estimates a tax gap of \$1.21 billion which includes tax evasion but is not clear what proportion derives from tax evasion. Our analysis suggests that the IMF figure is if anything an under-estimate.

The major estimate above is **\$761 million** lost from failing to tax a proportion of the informal sector. Estimates of VAT evasion (**\$300 million**) may include revenues additional to these figures since not all such tax evasion derives from the informal sector. Lost revenues from under-valuing imports provide a further large loss that it is difficult to pinpoint, but may be in excess of **\$200 million** a year (and possibly even higher). Then there are tax revenues lost from forests (**\$57 million**).

Based on these figures, it seems reasonable to estimate revenue losses of over \$1 billion from tax evasion.



Kikole Village forest reserve in Kilwa, Tanzania- Photo by Cassian Sianga

4.3 Corruption in the government budget

There is an additional de facto loss of revenues from corruption in the government budget, which diverts money away from supporting public services. Government officials estimate that each fiscal year, corruption is responsible for a 20% loss from the government's budget.¹⁵⁷ This represents an extremely large loss. In 2016/17 government expenditure was slated to amount to TShs 29.5 trillion¹⁵⁸; of which 20% is **TShs 2.9 trillion (\$1.3 billion)**.

The government is taking some action against the misuse of public funds. In November 2016, for example, the President dissolved the Tanzania Revenue Authority board and sacked its chairman after its decision to deposit \$13 million in fixed deposit accounts in three different banks; the President accused the board of irregularly diverting the money meant for the taxman's recurrent expenditure to fixed deposit accounts where it would generate interest that was to be shared among the agency's top brass.¹⁵⁹

Ongoing action such as this, along with much greater oversight of procurement contracts and government budget spending, will be needed to ensure that the public budget genuinely funds public services.

Corruption

The Anti-Corruption Resource Centre noted in 2014 that 'corruption is still rampant and is an issue of particular concern in the context of the country's growing extractives industry'.¹⁶⁰ The 2012 Afrobarometer survey showed that 86% of Tanzanians believe that at least some tax officials are involved in corruption.¹⁶¹ A 2010 nationwide survey by the NGO Concern for Development in Africa found that police authorities were considered most corrupt, followed by local health authorities, the judiciary, the Tanzanian Electric Supply Company and the Tanzania Revenue Authority.¹⁶²

4.4 Conclusion: Is the government implementing our recommendations?

The *One Billion Dollar Question* report made a number of recommendations to the government on tax evasion (see below). The government has made significant progress on these. It is politically committed to cracking down on tax evasion, has made a big public issue of this and is building the capacity of the TRA to collect more revenues.

There is more that could be done, however, to bring a larger part of the currently informal sector into the tax system, notably by ensuring that professional companies and small/medium size firms are properly taxed and that the tax base is broadened beyond the currently small number of companies and beyond the capital city.

Previous recommendations: Tax evasion and the informal sector

1. Continue to promote messages to potential and actual tax payers and the general public on the negative implications of tax evasion.
2. Continue to increase the capacity of the TRA to combat tax evasion and bring parts of the informal sector into tax collections, drawing on donor support.

5. THE MINING SECTOR

Tanzania is rich in gold and other minerals but the mining industry has historically failed to transform the economy and develop the country. This has largely been due to low tax revenues generated by the government, untransparent, discretionary agreements signed with the companies and corruption. However, the government has made efforts in recent years to turn this around and especially to increase revenues from mining and the petroleum sector. Evidence presented below suggests that the government is succeeding in increasing revenues from mining but also continues to lose large revenues.

Mining in Tanzania

Tanzania's mining industry is dominated by nine major mines: seven gold and one each for diamonds and tanzanite. Tanzania is one of Africa's largest gold producers and may become a significant oil and gas producer; the past few years have seen a big increase in exploration for gas and oil along the coast.¹⁶³

Tanzania has exported around \$1.7 billion of minerals, nearly all of which is gold, in each of the last three years (2013-15).¹⁶⁴ The biggest producers are the Geita mine, owned by South African company AngloGold Ashanti, and the Bulyanhulu and North Mara mines, both owned by Acacia Mining, a Canadian company listed on the London Stock Exchange (formerly African Barrick Gold).

The principal laws are the Mineral Policy of 2009 and Mining Act of 2010, and in the petroleum sub-sector, the new Petroleum Act 2015. The 2010 Mining Act raised the royalty on gold from 3 to 4% while royalties on diamonds and gemstones are 5%. The Mining Act also requires the government to own an equity stake in future projects involving over \$100 million in capital investment, mining firms to list on the Dar es Salaam Stock Exchange and holders of special mining licences to have a minimum of 30% local ownership of all paid up shares.¹⁶⁵ Holder of special mining licences (for investments exceeding \$100 million) enter into Mineral Development Agreements (MDAs) with the government which are subject to review every five years and at the renewal of the mineral right.¹⁶⁶

The Finance Act 2016 introduced a new income tax regime for the extractive industry, covering ring fencing of mineral and petroleum operations; granting of depreciation allowances; realization (disposal) of mineral and petroleum rights; treatment of unrelieved tax losses; treatment of joint mineral and petroleum rights; treatment of bonus payments, and provisions for rehabilitation and decommissioning expenditure.¹⁶⁷

5.1 Government earnings and losses from mining

The Tanzania Extractive Industries Transparency Initiative (TEITI) states that government revenues from the extractives sector were \$602 million in 2013 and \$754 million in 2014. This includes revenues from oil and gas and means that extractive sector revenues amount to around 12% of total government revenue and 3.3% of GDP in 2014.¹⁶⁸

As regards mining only (and not oil and gas), analysis of government figures, in the table below, shows that the government has been significantly increasing its revenues as a proportion of exports in the past three years – from 16% in 2013 to 26% in 2015. The main reason is not increases in

royalties (these have declined) but increases in other taxes paid by the mining companies. The table shows that the government has significantly increased its tax take from mining – from 16% to 26% of the value of exports in the past three years.

Mining royalties and taxes in Tanzania

	2013	2014	2015
Total mineral exports	\$1.78bn	\$1.7bn	\$1.7bn
Gold royalties paid	\$70.3	\$65.4m	\$63.2m
Diamond royalties paid	\$1.9m	\$3.4m	\$2.3m
Taxes paid by large mines ¹⁶⁹	\$218m	\$283m	\$381m
Total revenues to government	\$290m	\$352m	\$447m
Revenues to government as % of exports	16%	21%	26%

Sources: Derived from Tanzania Minerals Audit Agency, Annual Report 2015, 2014 and 2013, <http://www.tmaa.go.tz>

In 2013, the government produced an estimate of its future revenues from eight large-scale mines for the years 2014-23. Total income was \$2.5 billion, much of which was expected to come from uranium and nickel as much as gold, as shown in the following table.

Projected Mine Output, Revenue and Government Take (Undiscounted) from 8 Large Scale Mines, 2014-2023

Name of Mine (Main Product)	Production	Revenue (USD Mil.)	Royalty Payments (USD Mil.)	Other Gross Revenue Taxes (USD Mil.)	Withholding Tax (USD Mil.)	Corporate Tax (USD Mil.)	Total Govt. Take (USD Mil.)
Mkuju River (Uranium)	24,155 MT	3,073.80	153.69	9.22	83.99	403.34	650.24
Geita (Gold)	4.75 mil. toz	4,267.97	170.72	20.19	5.16	33.01	229.08
Bulyanhulu (Gold)	2.8 mil. toz	2,785.62	111.42	8.36	0.00	0.00	119.78
North Mara (Gold)	3.0 mil. toz	2,696.18	107.85	15.34	0.00	0.00	123.19
Golden Pride (Gold)	7,255 toz	6.51	0.26	0.02	0.00	0.00	0.28
Buzwagi (Gold)	1.7 mil. toz	2,143.60	85.74	6.43	43.54	444.74	580.46
Kabanga (Nickel)	190,498 MT	4,686.66	187.47	14.06	83.19	468.87	753.59
TOTAL		19,660.33	817.15	73.62	215.89	1,349.96	2,456.62
Revenue Stream Contribution to Total Government Take			33.3%	3.0%	8.8%	55.0%	100%

Source: Tanzania Minerals Audit Agency, Annual Report 2013, p.21, http://www.tmaa.go.tz/uploads/ANNUAL_REPORT_2013_FINAL.pdf

Corporation tax

The bulk of taxes paid by mining companies comes from a small number of mines. In 2012/13, for example, of 20 mining companies tracked in the EITI process, 13 had not paid corporation tax mainly because they were declaring losses as a result of generous rules on offsetting losses against tax. These included some of the largest mines such as Bulyanhulu and North Mara, owned by Acacia Mining.¹⁷⁰ Only in 2016 did Acacia Mining reach agreement with the government to start making some corporate tax prepayments.¹⁷¹ This suggests that government earnings from taxes should be much higher than currently.

Unpaid taxes discovered by audits

There is also the further large question of unpaid taxes. Annual reports by the Tanzania Minerals Audit Agency (TMAA), which audits mining companies, show very large unpaid taxes by some companies. In the three years 2013-15, the TMAA discovered mining companies investigated (sometimes also including construction companies) were not paying **\$688 million worth of taxes** that they should have been – **an average of \$229 million a year** (see box below). The biggest dodge has been some companies claiming disallowable items as allowable expenses while avoiding paying withholding tax is also prevalent.

TMAA Audits

2015

Audits of revenue generated, capital and operating expenditure during the year 2015 were conducted on 36 gold, diamonds, medium scale mines and road construction projects. A number of queries were raised during the audit and communicated to the respective auditees for responses.

Unresolved queries communicated to TRA (2015)¹⁷²

Item	Amount (USD)
1. Disallowable items claimed as allowable expenses	46,096,634
2. Payments of mining technical services, management fees, non-technical services and dividends for which tax was not withheld	96,687,245
3. Unqualified capital expenditure deductions	95,236,673
4. Payments which were not Subjected to Pay As You Earn (PAYE) and Skills Development Levy (SDL)	1,278,444
TOTAL	239,298,996

2014

An audit of revenue generated, capital and operating expenditure during the year 2014 was conducted on six large scale mining entities, twenty one medium scale mining entities and two mineral dealers.

Unresolved queries communicated to TRA (2014)¹⁷³

Item	Total Amount (USD)
1. Disallowable items claimed as allowable expenses	45,059,929
2. Payments of technical services, management fees, non-technical services and loan interest for which tax was not withheld	10,307,886
3. Unqualified capital expenditure deductions	24,607,526
4. Payments which were not subjected to Pay As You Earn (PAYE) and SDL	1,642,692

2013

An audit of revenue generated, capital and operating expenditure during the year 2013 was conducted on 7 large scale mining entities, 15 medium scale mining entities and 7 mineral dealers.

Unresolved queries communicated to TRA (2013)¹⁷⁴

Item	Total Amount (USD)
1. Disallowable items claimed as allowable expenses	163,544,707
2. Payments of technical services, management fees and royalty for former mineral rights for which tax was not withheld	90,450,167
3. Unqualified capital expenditure deductions	57,457,020
4. Understatement of Earnings Before Interest and Tax	49,718,035
5. Under- declaration of asset disposal proceeds	2,100,000
6. Payments which were not subjected to PAYE and SDL	3,688,176

The TMAA is not able to audit all companies every year, thus unpaid taxes are even higher than these figures. TMAA officials told the authors in an interview that it was able to audit the large mines but not the medium- and small-sized mines, due to lack of adequate funding. They said that small scale mining operations and outputs are not included in the national statistics even though they are believed to produce around 5 tonnes of gold per year (compared to around 40 tonnes produced by large-scale miners).¹⁷⁵

The authors suggested to the TMAA officials that it could discover perhaps 25% more unpaid taxes than it has in the past three years; a figure which was accepted. **Based on this estimate, the TMAA could discover an extra \$57 million a year.**

Other tax avoidance

TMAA officials told the researchers that some companies in the mining sector can engage in a variety of practices to avoid taxes. This can be through mispricing of equipment/capital goods but mainly in technical services such as in construction of tailings storage facilities: physical work is done in Tanzania but design may be claimed to be undertaken outside Tanzania by non-residents who avoid taxes. The TMAA officials also stated that multinational companies might engage in transfer pricing in capital, claiming higher interest rate payments on loans which reduce taxable profits in Tanzania. In addition, they said that companies can claim for arrangement fees for loans in which case a middleman gets paid for 'arranging' loans thereby adding to the cost of capital.¹⁷⁶ This research has not sought to investigate these allegations and has no evidence of any individual company engaging in such activities.

5.2 Tax incentives

There are no official figures published on revenue losses from tax incentives in the mining sector.

Yet mining companies can receive considerable tax incentives applicable to the sector as a whole (see box) and further incentives in individual Mineral Development Agreements. Recently, however, the government has renegotiated MDAs for the mines managed by AngloGold Ashanti and Acacia Mining, the two largest miners, to incorporate changes from the 2010 Mining Act, raising the royalty rate for gold (and copper) from 3 to 4%.¹⁷⁷

The VAT Act which became operational in July 2015 gives mining companies VAT exemptions on imports of goods for use in the oil, gas or mineral exploration or prospecting activities. But agreements made before the VAT Act relating to exploration and prospecting of minerals continue to be governed by the provisions of the previous VAT Act of 1997.¹⁷⁸



Open pit Mining, Geita, Tanzania- Photo by Allan Lisner

Mining sector tax incentives

The main tax incentives are:

- Import duty exemption for mining equipment and supplies directly related to the mining operations are granted up to one year after the start of production. A cap limit of 5% customs duties on imports of capital equipment and supplies applies thereafter.
- VAT on exports is zero-rated. VAT paid is fully recoverable and there is full relief from VAT for services or goods exclusively for mining activities.
- Holders of mineral rights are exempted from domestic withholding tax on goods and services supplied by them. However, they are obliged to pay withholding tax on domestic goods or services purchased by them.
- Depreciation is allowable on all mining capital expenditure and on exploration and production rights.
- Losses may be carried forward for recovery without limit.¹⁷⁹

5.3 Illicit financial flows

Tanzania's revenue losses from trade misinvoicing have been noted above. The extent to which mining companies may be responsible is not known. According to the Report of the High Level Panel on Illicit Financial Flows, chaired by former South African President Thabo Mbeki, mining sector corporations in the East African Community region are the leading sources of illicit financial flows.¹⁸⁰

Unlike most other countries, Tanzania is actively monitoring cost deductions by companies in the extractive sector, a major source of potential transfer mispricing. The TMAA and TPDC are aware of potential over-claims regarding related party payments, but they lack the appropriate comparable data to conclusively challenge companies. This is particularly pronounced in Tanzania's nascent offshore gas industry.¹⁸¹

Acacia Mining and tax evasion

In March 2016, a Tanzanian government tax tribunal found that Acacia Mining, which owns three gold mines in Tanzania, had been practising tax evasion and ordered the company to pay \$41.25 million as a fine. The ruling stated that it had evidence that Acacia was engaging in 'a sophisticated scheme of tax evasion', stating that Acacia paid dividends to its shareholders worth \$412.5 million between 2010 and 2013 but evaded a 10% withholding tax by declaring losses.¹⁸² The tribunal said it was inconceivable that Acacia could pay so much money in dividends for four consecutive years, while its only assets were the three loss-making entities incorporated in Tanzania that do not make any profit.¹⁸³ Acacia has said that it believes the tribunal's judgment to be 'fundamentally flawed' and that it will appeal against the ruling in Tanzania's Court of Appeal.¹⁸⁴

5.4 Smuggling

Smuggling of minerals is a known persistent problem and source of revenue loss in Tanzania. The TMAA notes that its airport desks have seized minerals worth \$10.8 million (TShs 1.1 billion) in 89 separate incidents of smuggling and royalty evasion between July 2012-December 2015.¹⁸⁵ TMAA officials interviewed in this research said that small scale miners engage in widespread smuggling of gold, such as in Chunya Mbeya and the Gold Green belt including Singida, Tabora, Tunduru, Mbulu, Musoma, Mahenge, Morogoro and Lake Zone (Mwanza and Shinyanga).¹⁸⁶

A recent report notes that Tanzanite gemstones worth around \$300 million are smuggled out of the country annually through illegal channels (Panya routes), reportedly ending up in either Kenya or India. Kenya, for instance, is said to be exporting Tanzanite minerals valued at \$100 million while India documents a thriving Tanzanite business worth \$300 million, but official export figures for Tanzanite in Tanzania amount to \$38 million per year.¹⁸⁷

5.5 Transparency

A number of important improvements have been made in transparency for the extractives sector in recent years. Most significantly, in July 2015 Parliament passed the Tanzania Extractive industries (Transparency and Accountability) Act. The TEITI Act:

- *Requires the Minister for Energy and Minerals to publish all concessions, contracts and licences given to extractive companies on a website or through a media platform widely available to the public.* The law applies retroactively as it does not exempt from disclosure any Mineral Development Agreement or Production Sharing Agreement signed prior to the Act coming into force.¹⁸⁸
- *Requires the Minister to publish the names and shareholders who own interests in extractives companies (their 'beneficial owners').* The Ministry for Energy and Minerals is now working to establish an open registry for licences to identify beneficial ownership and to include the names of individuals who own mineral rights for non-public traded companies.¹⁸⁹ Prime Minister Kassim Majaliwa has committed to ensuring that Tanzania will establish a central register for beneficial ownership of extractive companies; that law enforcement agencies will have access to the information; and that bilateral arrangements will be established with partner countries to share information. The EITI requires that by 2020, implementing countries should disclose information on beneficial ownership through their EITI reports.¹⁹⁰
- *Establishes a committee with a mandate to ensuring that payments made by companies and receipts by government are accounted, and verified.* These are published in TEITI reports.
- *Requires extractives companies to provide an annual report providing information on local content, corporate social responsibility and capital expenditures.* On capital expenditures the law requires extractive companies to submit to TEITI costs incurred at every stage of development.¹⁹¹

There are some problems, however, with implementing some of these commitments.

- Most notably, although the requirement is to publicise the existing MDAs, most MDAs with mining companies have still not been made public. Petroleum agreements are yet to be made available either formally or informally.
- Neither have the Production Sharing Agreements with oil & gas companies been made public officially, although some details have been leaked and reported on¹⁹² while some companies have chosen to publicise their agreements¹⁹³.

Overall, TEITI, while important in contributing to increasing transparency, lacks teeth, rarely going beyond identifying financial discrepancies to achieve real accountability or policy change.¹⁹⁴

The mining law does not clearly outline the legislature's oversight responsibilities, and Parliament does not consistently review mining revenues.¹⁹⁵ Parliament has played a significant role in recent policy reforms to strengthen revenue collection in the extractive industry, namely the introduction of thin capitalisation provisions and capital gains tax. However, members of parliament who are informed and vocal on tax issues are limited in number while the majority fail to provide sufficient oversight either due to lack of expertise and understanding, or the presence of vested interests. The Parliamentary Committee on Extractive Industries, despite active engagement on tax holidays, environmental degradation, and benefits to host communities, is believed to know very little about specific types of tax avoidance.¹⁹⁶

The Natural Resources Governance Institute notes that Tanzania provides little information on the mineral licensing process before licences are granted and, once mining rights are awarded,

information is available only in a complex digital format for a fee, while environmental impact assessments are released only upon request. The Finance Ministry publishes information on production volumes and the value of exports, but does not provide revenue data.¹⁹⁷

5.6 Conclusion: Is the government implementing our recommendations?

The *One Billion Dollar Question* report made a number of recommendations to the government on the mining sector (see box). The government is not fully implementing these recommendations. It has not, for example, made its audits of mining companies public (recommendation 1), although the TMAA does publish collective figures for unpaid taxes by the companies it has audited. Fiscal stabilisation clauses from MDAs have not been removed although some of the fiscal terms of these MDAs with some companies, such as AngloGold Ashanti and Acacia Mining, have been revised (recommendation 2). The government has agreed to make public the concessions and agreements made with mining companies – an important issue (recommendation 3) but it has still not formally done so. On recommendation 4 – the tax terms for oil & gas – this report has not reviewed this sector.

Previous recommendations: Mining/extractives sector

1. Make public the findings of audits of individual companies conducted by the TMAA and TRA.
2. Review the Mining Act of 2010 to remove the possibility to provide fiscal stabilisation clauses to companies. Renegotiate the terms of all mining agreements with individual companies to bring them into line with Tanzanian legislation and ensure that fair taxes are paid.
3. Make all individual mining agreements public by posting them on the Parliament and Ministry of Energy and Minerals websites.
4. Review fiscal policy for the oil and gas sector to ensure that tax terms are fair, that agreements are subject to public scrutiny and that Production Sharing Agreements optimally benefit the people of Tanzania.

6. LOCAL CONTENT POLICIES

Tanzania has recently taken significant steps to improve its local content policies to benefit the country. The policy has gone furthest in the nascent oil and gas sector but lags behind in sectors such as mining and agriculture. The consequence is that Tanzania is not benefitting as much as it could from foreign investment.

Defining local content

Local content refers to value-added that is created in the domestic economy as a result of the actions of companies or governments.¹⁹⁸ Two key local content policies relate to employment and procurement.

- Local content policies in **employment** usually refer to the proportion of workers and staff who are nationals of the country of operation. Government can encourage or legislate to require that all companies in a sector employ nationals as a certain percentage of their workforce or management and/or induce firms to undertake more training and human resource development activities and/or to encourage the expansion of certain skills in the local economy.¹⁹⁹
- Local content in **procurement** means where companies are required or encouraged to give preference to buying local goods and services, with the aim of promoting local companies or supply chains. In some countries, this requirement is qualified by a condition that goods and services must be of comparable quality and quantity to international materials and services.

In 2015, the government established a Local Content Department (LCD) under the National Economic Empowerment Council at the Prime Minister's office. The LCD is mandated to promote local workforce development, investment in suppliers development, linking with investors, technology transfer and research capability and community social investments. Each government ministry will have a local content desk officer who will work very closely with the LCD.²⁰⁰

6.1 Oil and gas

Investments in Tanzania's oil and gas may be between \$20 billion and \$30 billion over the next 20 years²⁰¹ and major international companies such as BG Group, ExxonMobil and Statoil are already operating in the country. In 2014, the government published a draft Local Content Policy for Oil and Gas, which will become the basis for legislation to be introduced. The Policy aims to promote a skilled workforce, enhance the transfer of technology and knowledge and enable Tanzanian businesses to tap opportunities to manage and supply goods, services and labour to the oil and gas industry.²⁰² The draft Local Content Policy contains some progressive elements:

- On procurement, it aims to 'enhance the value addition and job creation through use of local firms to provide goods and services'. The Government would 'ensure a compulsory Local Content requirement in every Invitation to Bid for goods and services' and ensure that 'local goods and services are given preference' by companies.²⁰³
- The Policy also aims to 'develop Tanzania local businesses to become internationally

competitive through the empowerment of local suppliers to meet the needs of the oil and gas industry'. To this end, the government would 'ensure every player in the oil and gas supply chain and value chain puts emphasis on local participation' by developing 'specified thresholds for local participation in each stage in the value chain'.²⁰⁴

- On training and employment, the draft policy would seek to 'ensure that all players in the industry prepare capacity building programmes for training of Tanzanians' and 'maximize participation of skilled and unskilled Tanzanians in the oil and gas supply chain and value chain activities'. The government would promote local training and technical institutions and establish a Centre of Excellence in oil and gas. Moreover, the Government would ensure that foreign staff had 'limited and non-renewable work permits', 'ensure deliberate preference is made for Tanzanians during recruitment' and 'ensure that certain employment cadres are reserved for Tanzanians only'. The government would 'work with oil and gas companies and service companies to ensure implementation of approved employment and succession plans'.²⁰⁵
- In terms of benefits to local communities, the Policy would require all investors and contractors 'to undertake locally prioritised community development programmes' and require all companies to submit 'credible Corporate Social Responsibilities action plans to the appropriate Authority'.²⁰⁶

The draft Policy also envisages establishing a National Local Content Committee to oversee and ensure the implementation of the policy.²⁰⁷

6.2 Mining

As noted above, the new TEITI Act requires mining companies to provide information annually on their local content policies. However, there are no specific benchmarks or targets for companies to meet nor is there a mechanism to monitor compliance.²⁰⁸ More generally, Tanzania's local content policies are much weaker in the mining sector than in oil and gas. There are local ownership requirements for all mining licenses (at least 50% for normal mining licences) and a local procurement plan must be submitted for each licence application, although there is no enforcement mechanism for the latter. An employment and training programme is required to be submitted to obtain a mining licence and all companies are required to employ and train Tanzanian citizens and implement a succession plan on expatriate employees. However, there are no guidelines as to what the plan should include and there is no provision for its enforcement and monitoring. There are also no legal obligations relating to the transfer of technology (just a policy). Overall, there are no monitoring and enforcement mechanisms on local content.²⁰⁹

Employing Tanzanians

The Mining Act of 2010 reintroduced the requirement for local content – particularly the need for local procurement, and required companies to employ and train citizens of Tanzania and implement a succession plan on expatriate employees. However, in the period 2007–2015, the percentage of expats in the mining sector has remained at 5-8%, an indication that the law has not had any significant effect in increasing employment of Tanzanian nationals. The Act does not specify any percentages for different categories of staff and TMAA statistics do not differentiate between categories of staff.²¹⁰

The two major mining companies, Acacia and Ashanti Gold Ashanti, together with the government, have responded to the increased interest in local content by establishing the Integrated Mine Technical Training Programme (IMTT) at colleges in Arusha and Moshi. IMTT is an apprenticeship programme where apprentices spend three months at the centre and six months at the workplace.

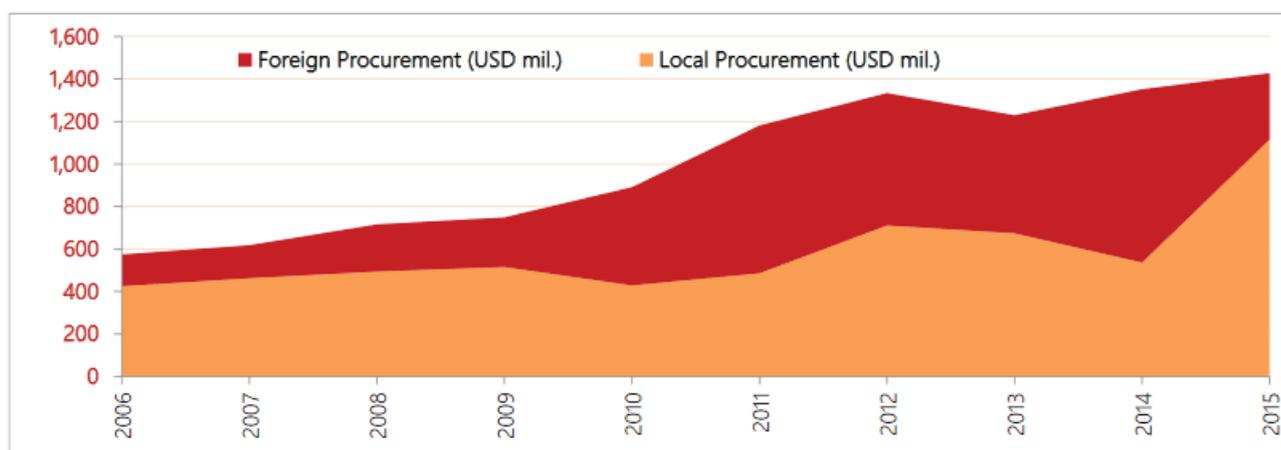
So far, about 500 apprentices have graduated from the IMTT programme and 95% of them have found employment in mining companies or related industries. However, as a recent report notes, while the project has equipped the sector with better qualified employees, it has most probably not resulted in Tanzanians replacing expatriates in the sector to any significant degree.²¹¹

Procuring goods and services

On procurement of goods and services, the 2010 Mining Act says that a special mining licence shall state 'the procurement plan of goods and services *available* in Tanzania'. Thus the Act does not require Tanzanian ownership of the goods and services to be procured, only that the goods and services are available in Tanzania. In Tanzanian mining regulations, a local company is a company registered in Tanzania, even if it is 100% foreign-owned. Moreover, imported items count as a 'local purchase' as long as they are purchased locally. For example, fuel, which is purchased from locally registered firms like BP and Oryx, counts as 100% local although the import content is 100%. In this case, there is hardly any 'value added' in the local purchase.²¹²

Procurement spending by mines in Tanzania is significant, amounting to around \$1.4 billion in 2015, as shown in the following figure. The table also shows that foreign procurement has actually risen in recent years, highlighting the failure of current regulation.

Procurement of goods and services by large scale mines, 2011-05



Source: Tanzania Minerals Audit Agency, Annual Report 2015, p.22, http://www.tmaa.go.tz/uploads/TMAA_Annual_Report_2015-4.pdf

6.3 Agriculture

Local content policies in Tanzania's agriculture sector are exceedingly weak. There is no specific local content policy or legislation governing agricultural investments. Tanzania's main agriculture strategy – the Tanzania Agriculture and Food Security Investment Plan (2011/12-2020/21)²¹³ – makes only a brief mention of foreign investment in agriculture and none of local content policies. Tanzania's tax incentives for agricultural investors are not linked to local content requirements. One of the government's key agriculture strategies is the Southern Agricultural Growth Corridor project which covers nearly one third of the country and envisages investments mainly involving outgrower schemes with 400,000 smallholder farmers.²¹⁴ Yet Tanzania lacks an explicit contract farming strategy that could enhance the local benefit of these investments. Despite various acts governing the agriculture sector, including legislation on sugar, coffee and tea, these laws only tend to touch on local content.²¹⁵

Among the areas of discussion in the context of local content is 'local-local' content, whereby the issue is not only having goods, services and labour coming from Tanzania but also from the local community near the investment location, such as a village, ward, district or region. The challenge here is one of capacity of local enterprises and labour to supply the needed quantity and quality. This is a further issue on which the government could make progress.



Maize Farming, Kiteto, Tanzania- Photo by NCA/ Alpha Kapola

7. SOCIAL PROTECTION

Lost tax revenues are urgently needed to improve Tanzania's system of social protection, i.e. both its social services and its social security. There is a need to expand health and education budgets but also to enhance the country's nascent cash transfer schemes in order to benefit citizens in general as well as the country's most vulnerable people in particular. Funded by increasing tax revenues, it is critical to implement enhanced social protection systems.

The fact that very large revenue losses derives from the informal sector underscores the importance of linking improved revenue collection to social protection. The reason is that tax is a social contract between leaders and citizens and the willingness and discipline to pay taxes are higher where citizens observe that leaders fulfil their part of the contract by spending sufficient tax collected funds on social protection for their citizens. Social protection should also be understood in a broad way, referring not only to social security but also to social services and a broader social policy to realise citizens' social rights.

7.1 Current social protection schemes

Tanzania has a variety of social protection measures in place but coverage is low. Figures for coverage vary:

- According to the UN, the existing mandatory Social Security Schemes currently cover 8.1% of the population, deemed low compared to most low income countries where it is about 25%.²¹⁶
- There are two compulsory social insurance funds offering health and medical coverage - the Community Health Fund and the National Health Insurance Fund. However, only around 14% of the total population is covered by these, implying that the majority of the population must pay at the point of service.²¹⁷

Thus over 85% of the population, including almost all informal sector workers, the self-employed and the unemployed, do not have protection in case of vulnerability to life contingencies, livelihood shocks or severe deprivation.²¹⁸ There is very low coverage for health services, an especially concerning situation given how critical healthiness is to the welfare of a country's people and economy.

The box below outlines various social protection schemes. The National Social Protection Framework was first drafted in 2008 and is still not finalised. It aims to improve coordination and the implementation of various policies and strategies relating to social protection.

Of particular note is the Tanzania Productive Social Safety Net (PSSN) programme which was piloted in 2010 and began to be implemented in 2012. The PSSN promotes two integrated interventions: a labour intensive public works programme and targeted conditional cash transfers. The average cash transfer is about TShs 21,000 (\$13), representing 21% of monthly consumption among PSSN

households. The objective of the PSSN, which is implemented by the Tanzania Social Action Fund, is to increase income and consumption and improve the ability to cope with shocks among vulnerable populations, while enhancing and protecting the human capital of their children. By August 2015, 1.1 million households were enrolled in the programme. The PSSN is financed from multiple sources but mainly donors, especially the World Bank, which has largely driven the programme.²¹⁹

Social protection schemes²²⁰

The government is promoting a number of measures to enhance the social protection system as part of priorities to be implemented through the National Strategy for Growth and Reduction of Poverty, popularly known as MKUKUTA & MKUZA. In addition to the Productive Social Safety Net programme mentioned in the main text, this involves a variety of initiatives including:

- Most Vulnerable Children (MVC) Programme, which provides social assistance to vulnerable children including orphans, covering around 570,000.
- Subsidised Food Distribution, whereby the National Food Reserve Agency distributes free or highly subsidised food in food insecure districts, reaching around 1.2 million annually.
- School feeding, which covers around 600,000 primary school students (8% of the total) in food insecure districts, largely funded by the World Food programme.

There are a variety of institutional policies including:

- In 2003, the National Social Security Policy was enacted to expand the coverage of social security under the Ministry of Labour and Employment, to harmonise the existing funds and to reduce fragmentation. The policy also established the Social Security Regulatory Authority, which sets the agenda and implements the Social Security Reform Programme with a focus on extension of coverage, including informal workers.
- The National Employment Policy (2007) aims to provide productive employment with equal access to decent employment opportunities with a focus on vulnerable groups.
- The National Food Security Policy and the National Disaster Management Policy foresee numerous interventions to enhance prevention, preparedness, recovery and rehabilitation in the event of natural or man-made disasters.
- The Ministry of Health and Social Welfare delivers a wide range of health and social welfare services under its Health Sector Strategic Plan III putting emphasis on the extension of healthcare to the poor and vulnerable, including supporting those with HIV/AIDS.
- The Department of Social Welfare within the Ministry of Health provides emergency aid and social assistance with a focus on the elderly, people with disabilities and vulnerable children.
- The National Education and Training Policy (1995) guarantees access to education and adult literacy for all citizens as a basic right.

The key contributory instruments are: National Social Security Fund (for private sector workers), Parastatal Pension Fund (for parastatal and private), Public Service Pension Fund (for central government employees), Local Authorities Pension Fund (for local government employees only), Government Employees Provident Fund (for non-pensionable government employees), and Public Service Retirement Benefit Scheme (for politicians).

7.2 Government spending and key priorities

In the 2016/17 budget, the government allocated TShs 4.8 trillion to education, TShs 2.0 trillion to health and TShs 388 billion to social protection. These amount to low percentages: respectively 16%, 6.8% and 1.3% of the government budget.²²¹ However, the social protection budget did not include allocations to some social protection programmes, notably the PSSN, which is mainly donor-funded.²²²

Allocation to social protection in the 2016/17 budget

TShs 387.9 billion is budgeted for social protection. Spending highlights are:

- TShs 2.4 billion for improving infrastructure for the elderly homes and juvenile detentions centres and purchase of food, medicine and other requirements for vulnerable children
- TShs 59.0 billion to enable economic empowerment in small-scale economic activities in groups, where by each village will get TShs 50 million in phases
- TShs 15.0 billion for Supporting National Skills Development Programme to promote productive and decent employment opportunities. It involves: re-skilling of 13,400 employees to accommodate emerging technologies and techniques; train 4,600 apprentices in collaboration with training institutions and employers; facilitate internship programme to 4,000 graduates; strengthen employment services centres including labour market information system; and identifying and asses 5,000 persons acquired skills through non formal learning
- The government has budgeted 5.0% of each LGA's total own revenue sources for youth groups. Likewise, TShs 1.0 billion has been set aside for Youth Development Fund Project to enhance Economic Youth Groups' empowerment
- TShs 1.96 billion for women's economic empowerment.²²³

In terms of key priorities, low population coverage of social protection and low government spending clearly suggest the need to increase expenditure to expand the number of vulnerable reached. Despite greater attempts to promote a social protection agenda nationally, little concrete progress has been made to align programmes and manage them efficiently. Many programmes remain dependent on donor interests, funding and capacities.²²⁴

The long delay in finalising the National Social Protection Framework is especially concerning. A recent report for German development agency, GIZ, states:

'The failure to finalize the Framework raises serious questions about the degree to which social protection remains a primarily donor-driven agenda and, as such, to what extent the Tanzanian government is truly committed to playing a leadership role on this issue.'²²⁵

Some groups vulnerable to malnutrition, such as infants, young children, pregnant women and lactating mothers, have not been covered sufficiently in current social protection programmes.²²⁶ There is also a particular need to support people with disabilities and very old people in improved social protection measures. As the UN has recommended, there is also an urgent need to increase and train sector personnel, develop monitoring, referral and response systems, strengthen district and national data collection and promote shared awareness at community and statutory levels of children and women's rights protection.²²⁷ The lack of impact evaluations and documentation means there are significant gaps in learning from past experience within and between programmes.²²⁸



Village Community Bank member in Kishapu, Tanzania- Photo by Håvard Bjelland

RECOMMENDATIONS

The government should fully implement the recommendations outlined in our previous reports. It should prioritise the areas where the revenue losses are greatest and where policy change can have the most immediate impacts. And in undertaking the following, it should work in partnership with the civil society organisations which are working towards the same ends. The government should:

Tax collections and tax evasion

- Ensure that currently ‘under-fiscalised’ sectors, such as agriculture, trade, mining and construction, contribute more and fairly to tax collections.
- Broaden the tax base by raising tax collections across the country (beyond the capital city), beyond a small number of corporate and individual tax payers and to include companies and professional organisations currently in the informal sector, including by expanding ICT-based tax collection systems.
- Continue and deepen the campaign to counter tax evasion.
- Establish greater oversight over spending of the government budget to ensure corruption is minimised.
- Adopt a similar approach to EITI for other sectors, especially tourism and telecoms, to monitor and reconcile large companies’ tax payments to government.

Tax incentives

- Ensure the publication of a single but broken down quarterly and annual figure on its tax expenditure. This must include all tax incentives (such as corporate income tax).
- Publish figures on tax expenditure related to the EPZs and SEZs
- Close down gaps in VAT collections by abolishing such incentives for the oil & gas sector.
- Review tax incentives and expenditure related to the EPZs and SEZs and take steps to reduce and eventually abolish these.

Illicit capital flows

- Take greater steps to ensure that all multinational companies, including those in the EPZs/SEZs, and especially in the telecoms, tourism and mining sectors, are importing and exporting goods at arm’s length values.
- Continue to increase the capacity of the TRA’s International Tax Unit to address transfer pricing, and ensure the conduct of transfer pricing audits of mining and petroleum companies.
- Ensure mechanisms are in place to counter multinational company practices of hedging and thin capitalisation, maintain company ownership details in official records and make these publicly available online.

- Speak up in international fora for all multinational companies, in all sectors, to be required to provide country-by-country financial reporting.
- Publicly condemn the practice of multinational companies using tax havens in their corporate structures and work internationally to abolish this.

Mining sector

- Continue the practice of the TMAA to conduct audits on mining companies, but make these audits public to expose individual company wrong-doing
- Publish quarterly and annual figures on tax expenditure in the mining sector
- Enhance the process and speed of publishing Mineral Development Agreements
- Ensure that all the provisions of the TEITI are implemented
- Ensure that government efforts to address transfer pricing fully cover the mining sector
- Ensure there is automatic exchange of information between the TMAA and the TRA

Local content policies

- Ensure that mining companies, in addition to providing information annually on their local content policies, are given demanding but realistic specific benchmarks or targets to meet, and that there are mechanisms to monitor compliance. These should be developed in a participatory way, involving all stakeholders.
- Maximise the promotion of local content policies in other key sectors, such as agriculture, to establish employment and procurement targets and to monitor these.

Social protection

- Use some of the extra revenues generated from increased tax collections to significantly deepen social protection programmes across the country, covering all vulnerable groups of people.
- Take greater steps to align the various programmes in place and reduce fragmentation, including by finalising the National Social Protection Framework.
- Increase training of sector personnel, develop monitoring, referral and response systems, strengthen district and national data collection and promote shared awareness at community and statutory levels of children and women's rights protection.

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