

WHAT WORKERS AND CIVIL SOCIETY RECOMMEND ON TAX INCENTIVES IN THE TANZANIA MINING SECTOR

- 1 Government should** participate actively in the regional initiatives towards harmonization of tax laws and policies to curb unhealthy tax incentives and competitions among countries;
- 2 It is paramount** to generate revenue domestically for the development of public services. The government needs to position itself to optimize on the opportunity offered by the recent reforms to re-negotiate the fiscal terms of contracts;
- 3 Government should** increase transparency through public participation. It should provide training programmes for the relevant parliamentary committee(s) and the participation of trade unions and Civil Society Organizations in the scrutiny, monitoring and evaluation processes;
- 4 Parliament should** review all existing statutory tax incentives through a cost-benefit analysis and remove those that are not beneficial. For example, government should re-assess the relevance of exemptions from import duties as one of the tax incentives considering the risk of transfer pricing that such exemption tends to fuel;
- 5 The link between incentives** received by companies and public service provision, jobs for Tanzanians and general economic development need to be emphasized and enforced as one of the prerequisites for the incentives;
- 6 Local content regulations** should be enforced. The requirement for companies to report their performance in local content is a good starting point. Government needs to adopt measures to ensure compliance by the companies with the requirements for employment of Tanzanians, with clear and published penalties for non-compliance. Compliance should include labour brokering companies who sub-contract for mining companies;
- 7 Workers should demand** an increase in minimum wage and continue with negotiations to address differences in the pay structure, between public sector-based and private sector-based staff of the mining sector to unlock implementation of the increased minimum wage agreed in the Trade Union Confederation of Tanzania-led efforts;
- 8 Workers in the mining sector** must be organized into trade unions to ensure that workers have permanent working contracts and have access to collective bargaining agreements;
- 9 The Ministry of Education should** expand training and education institutions to integrate mineral, mining and natural resource management studies into higher education programs;
- 10 Following in the steps of** the Integrated Mine Technical Training Programme, the government should adopt policy initiative to local government authorities to develop strategies to build local capacities for a broader context of local content that will facilitate indirect employment by the mining sector as well;
- 11 Government should improve** working conditions in the mining sector by strengthening the capacity of Occupational Safety and Health Authority to provide adequate oversight on safety and health matters in the industry.

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THE MINING SECTOR IN TANZANIA

has some of the largest multinationals in the country. They include **Golden Pride Mine** from Australia, **AngloGold Ashanti** and **Barrick Gold** from Canada – they run about 4 major mining projects.

Economic minerals produced in the country include **gold, diamonds, coal, copper, silver, dimension stones, tanzanite** and other varieties of **gemstones**.

The contribution of the mining sector to the GDP is between 2.4% to 3%. The sector has huge potential in creating employment for the people of Tanzania and contributes immensely to domestic resource mobilization, for **building schools, health facilities, water infrastructure, building roads** and **ending poverty** among the people of Tanzania.

The government uses **tax incentives** to attract **multinational** companies to invest in the mining sector. These are preferential tax treatments that are offered to multinational companies to reduce their tax liabilities while investing in the mining sector.

TAX INCENTIVES CAUSES HUGE LOSSES

According to an ActionAid International report published in 2018, **Tanzania loses an estimated US\$ 531.5m to tax incentives each year**. In the last three years, it has emerged that the African subsidiary of the **Barrick Gold** from Canada has been accused of money laundry and tax evasion. The company is accused of making **illegal transactions** ranging from \$ 1.5 million to \$752 million per payment between April 2008 and July 2018.

A study by the Chr Michelsen Institute in 2016 found that The Golden Pride Mine which was in operation for **12 years (1991–2013) only paid corporate tax for the last three years** of its operation.

Acacia Mining, formerly known as African Barrick Gold and 63.9% owned by Canada's Barrick Gold, is the biggest copper and gold exporter operating in Tanzania. The Tanzanian government recently charged the company **with damages of about \$ 190 billion** with two major scandals publicly reported in 2016 and 2017.

THESE LOSSES COULD BE USED TO:

- fund health and education sectors in Tanzania;
- provide affordable housing for low- and middle-income earners;
- provide social support for poor families and communities;
- provide affordable water for communities;
- close the gap between girl child education and boy child education;
- ensure that there are enough teachers in public basic schools and provide adequate teaching and learning materials;
- invest in public infrastructure.

WHAT SHOULD BE DONE?

We must **support** government **reforms** and take more actions. The extractives sector has been subject to different rounds of reforms including the formulation of Mineral Policy of 1997 and enactment of the Mining Act, 1998 and the most recent reforms of 2016 to 2017. These reforms, have brought some positive results, but more needs to be done.

After taking leadership of the country in **2015**, the current government has launched an **anti-corruption** campaign in the mining sector by clamping down on **tax evasion practices, money laundering, trade mis-invoicing** and **transfer pricing** by multinationals. Thanks to these some results have been achieved:

- Foreign Direct Investment in the mineral sector **has risen** from US\$ 1.3 billion to **US\$ 2.5 billion**;
- Commissioning of six large scale gold mines which **produced** an average of **50 tonnes** of gold compared to less than 1 tonne;
- A medium scale **tanzanite mine** producing an average of **1.4 million carats** per annum commissioned in 2002;
- **Increase** in the value of mineral exports from US\$ 26.66 million to **US\$ 1,003.21 million**; growth of the mineral sector from 7.7% to **10.7%** (at 2001 prices);
- Level of **employment** in large scale mines **increased** from 1,700 to **13,000 workers**;
- **Rise** in government **revenue** from large scale mining from US\$ 2 million to **US\$ 78 million**;

- The **contribution** of the mineral sector to **GDP** increased from 1.4% to 2.7%;
- **Higher royalty rates** in some of the mineral sub-sectors;
- Mandated **local value addition** to minerals;
- **Enactment** of the Natural Wealth and Resources Contracts **Act, 2017**, with enhanced parliamentary scrutiny of mining contracts;
- Government participation has allowed the government to **receive dividends** from the profits of the company (thereby increase its take) and provides some access to company-based information for the industry.

MANY CHALLENGES STILL EXIST

- According to the PSI/FES report, **tax incentives** provided to **multinationals** are susceptible to abuse which consequently leads to revenue losses to government. Multinationals may find avenues to **avoid paying fair taxes** via Corporate Income Tax, Value Added Tax, Import Duties and Stability clauses.
- Access to information on the **obligations** of multinationals with regard to employment creation and local content, vis a vis government incentive, is **not readily** available;
- The Mining Commission **website** contains a standard format for detailed reporting on local content performance by the companies, but the **reports are not available**;
- The current negotiations led by the Trade Union Congress to **raise the minimum wage** from Tsh400,000 to Tsh750,000 faces setbacks due to structural differences in terms of salary scales between private-sector and public sector-based employees of the mining sector;
- Most **workers** in the mining sector are **not organized into trade unions**; they do not have access to permanent contracts of employment, and the sector generally does not have Collective Bargaining Agreements;
- The **Occupational Safety and Health Authority** of Tanzania is **not adequately equipped** to deal with cases and to enforce compliance. There are insufficient prevention efforts for accidents and deaths; and inadequate (often mishandling of) treatment of cases when accidents/diseases occur.