NATURAL RESOURCES REVENUE IN THE MINISTRY OF ENERGY AND MINERALS TANZANIA

By
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A Research Dissertation Submitted in Partial Fulfillment of the Requirements for the Award of the Degree of Master of Science Procurement Supply Chain Management (Msc. PSCM) of Mzumbe University Dar es Salaam Campus College

2014
CERTIFICATION

We, the undersigned, certify that we have read and hereby recommend for acceptance by the Mzumbe University, a dissertation entitled; “Natural Resources Revenue in the Ministry of Energy and Minerals Tanzania” in partial fulfillment of the requirements for award of the degree of Master of Business Administration in Corporate Management (MBA-CM) of Mzumbe University.

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I, Aloyce Alfred Marenge, declare that this dissertation is my own original work and that it has not been presented and will not be presented to any other University on a similar or any other degree award.

Signature ........................................

Date..................................................
ACKNOWLEDGEMENT

First and foremost, I would like to appreciate assistance from the following: my supervisor MAKURU NGEMBA for guiding me from the proposal stage up to the final stage of writing this Thesis.

The Mzumbe University specifically Dar es Salaam Business school and Mzumbe Management is acknowledged for providing conducive environment of studies during my two years course of Master of Business Administration in Cooperate Management.

Finally, I extend my thanks to my fellow students for the ideas we shared during our stay at Mzumbe University Dar es Salaam Campus College.
DEDICATION

This work is dedicated to my family
## LIST OF ABBREVIATIONS

<table>
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<tr>
<th>Abbreviation</th>
<th>Full Form</th>
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<tr>
<td>AGA</td>
<td>Anglo Gold Ashanti</td>
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<tr>
<td>ERP</td>
<td>Economic Recovery Program</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
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<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>STAMICO</td>
<td>State-owned Mineral Monopoly Company</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference on Trade and Development</td>
</tr>
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<td>USD</td>
<td>United States Dollar</td>
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ABSTRACT

The objective of the study was to examine the influence of revenue Collection from Gold Mining Sector in Ministry of Energy and Minerals in Tanzania. Specifically the study identified the sources of Revenue; the rate used to assess the Revenue collection and examined the procedures used in collecting Revenue.

The research was conducted using case study design and data were analyzed by using Statistical Package for Social Scientist (SPSS), and results were presented in frequency distribution tables and charts. The findings revealed that revenue losses in the Mining Sector in Africa are common to every country including Tanzania which is one of Africa’s largest gold producers.

According to the International Monetary Fund (IMF), gold exports have risen from around US$ 500 million to US$ 1.5 billion in the last five years due to rising gold prices, but that government revenues have remained at around US$ 100 million per year, due to nonpayment of corporate income tax by investors using holidays advantage provided to mining companies by the tax laws (income tax act, 2004). Although a new Mining Act was passed in 2010; existing gold mines remain governed by their respective agreements signed prior to the law currently in force.

It was concluded that, Mining companies have exclusive ownership of their operations and the minerals recovered and the power to dispose of them as they wish including to transfer those rights to other companies without incurring capital gains tax. Mining companies’ ability to offset against their taxable income the full costs of their expenditure on items such as plant and machinery has lead to perpetual declaration of tax losses, and thus non-payment of corporate income tax

It was recommended that, the government should review the mining and tax law in order to enable the authorities concerned like the ministry of energy and minerals to have power to asses and collect tax, royalties and other revenues from mining companies operating in Tanzania.
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CHAPTER ONE

INTRODUCTION

1.1 Overview of the Study

The research intended to look at the revenue collection in the Ministry of Energy and Minerals in Tanzania. The purpose is to identify the sources of Revenue arising from Gold Mining sector in Tanzania, identify the rate used to assess the Revenue collection arising from Gold Mining sector in Tanzania, examining procedure used in collecting Revenue from Gold mining sector in Tanzania and finally examine the law and procedure used in collecting Revenue from Gold mining sector in Tanzania.

This chapter provides the background information which highlights historical background of the problem, statement of the problem which opens up the problem under study, main and specific objectives of the study, Research questions, limitations, Delimitation, and finally significance of the study.

1.2 Background of the Study

Since 2000, Tanzania’s mining industry has experienced a boom in minerals exploration and mining activities. Six large gold mines are responsible for much of the country’s production. Largely because of these six firms, Tanzania gold production has increased dramatically in recent years. From 1998 to 2005, gold production increased from 2 to 50 per year, making Tanzania one of the largest gold productions in Africa. To make Mining Industry more active the government formed Ministry of Energy and Minerals under the President notes of the United Republic of Tanzania on 23rd November 2000 as per a special instrument No.4 of 1st December 2000 in the official Gazette Number 48 volume 81 dated 1st December 2000 and vide Government Notice No.468 published on 1st December 2000. The establishments of the Ministry were due to economic policy reforms since 1990’s where there was an increasing awareness of the economic potential of Tanzanian’s
mining industry, and it was during this time that the country began liberalizing and privatizing its minerals sector. In the late-1990’s, Tanzania experienced a mineral boom that is still occurring.

Due to the rapid growth of Minerals in Tanzania there is a little improvement in Revenue collection although the government took different reforms. The Controller and Auditor General to his report revealed that the Ministry of Energy and Minerals as they have been given mandate of collecting revenue from various sources including Gold Minerals and Gas could not achieve and hence caused under collection for more than five years. Mining act of 2010 requires new rate of 4% charged as Royalties of which it was started on July 2012. In view of the above information this study shall be done to find factors influencing Revenue collection in Tanzania.

1.3 Statement of the Problem

Tanzania as one of the largest gold productions in Africa with six large gold mines being commissioned since the early 1990’s, the government has failed to reap the benefits. The mining sector contributes about 52 per cent of country’s export but it only accounts for 3 per cent of the country’s Gross Domestic Product (GDP). Even if Tanzania has been experiencing booming mining industry particularly Gold Mining Industry still Revenue collection from gold mining industry has been low and insignificant to GDP contribution.

This study was done to find out how the Ministry is failing to collect Revenue from the gold mining sector which constitute a large share in the Gross Domestic Product by identifying procedure used in collecting Revenue from Gold mining sector, examining the rate used to assess the Revenue collection arising from Gold Mining sector, examining how the Gold mining sector may substantively contribute to Gross Domestic Products (GDP) and finally examining the law and procedures used in collecting Revenue from Gold mining sector.
1.4 Objectives of the Study

1.4.1 Main Objective

The objective of the study was to find out factors that influence revenue collection from Gold Mining Sector in Ministry of Energy and Minerals in Tanzania.

1.4.2 Specific Objectives

The study was guided by the following specific objectives:-

i. To identify the sources of Revenue arising from Gold Mining sector in Tanzania.

ii. To identify the rate used to assess the Revenue collection arising from Gold Mining sector in Tanzania.

iii. To examining procedure used in collecting Revenue from Gold mining sector in Tanzania.

iv. To examine the law and procedure used in collecting Revenue from Gold mining sector in Tanzania.

1.4 General Research Question

The General research question of this study was:” What factors do influence revenue Collection from Gold Mining Sector in Ministry of Energy and Minerals in Tanzania?

1.5.1 Specific Research Questions

The study addressed the following specific Research questions:

i. What are the sources of Revenue emanating from the gold mining sector?

ii. What is the tax rate used administration on revenue generated from gold mining sector?
iii. How tax revenue from gold mining sector is is collected and controlled in the ministry of energy and minerals?

iv. What are the laws and policies contribute to collection of revenue from gold mining sector in Tanzania?

1.5 Significance of the Study

This study is significant in the following ways:
The study helps the researcher, policy makers, government authorities and public in general in Tanzania to come up with the clear information on Revenue Collection from Gold Mining Sector in Ministry of Energy and Minerals in Tanzania. Moreover, the study helps relevant authorities to enhance Revenue Collection from Gold Mining Sector, and at the end of the day interested parties through this study are in a position to come up with the policy recommendations to improve Revenue Collection from Gold Mining Sector.

1.6 Delimitation of Study

The study encountered financial constraints but in order solve financial difficulties the researcher restricted the study at the Ministry of Energy and Minerals because most of information including secondary data on other facilities are available here.

Moreover, the researcher faced the problem of time constraints and in order to solve the problem the researcher has developed an action-plan and abides to it in order to manage time effectively. In addition, the researcher restricted himself into collecting data that are useful and are more likely to be processed later by developing effective data collection tools and come up with this dissertation.

Reluctance of respondents was another problem faced by the respondents where some of Ministry of Energy and Minerals and mining companies’ officials rejected to answer some of the questionnaires by saying that they are not official spokes
persons, to solve this problem the researcher informed the management and other personnel on the importance of research in general.

1.7 Scope the Study

This study explored the influence of revenue collection in the Ministry of Energy and Minerals in Tanzania particularly at the headquarters in Dar es Salaam Tanzania as the centre of revenue collection. Moreover the study covered eight mining zones that are responsible in revenue collection which includes: Southern Zones (SZ)-Mtwara, Eastern Zones (EZ) –DSM, Northern Zones (NZ) –Arusha, Western Zones (WZ) – Mpanda, Central Zones (CZ) –Singida, South western Zones (SWZ) –Mbeya, Central Western Zones (CWZ) –Shinyanga and Lake Victoria Zones (LVZ) – Mwanza
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

In this chapter a detailed literature review on Revenue Collection from Gold Mining Sector in Tanzania is given. The chapter is divided into two parts, Theoretical Literature Review and Empirical Literature.

This chapter presents theoretical and empirical literature that aims at developing an understanding of Revenue Collection from Gold Mining Sector in Tanzania.

2.2 Theoretical Literature Review

2.2.1 Definition of Key Concept

Mining
Mining is the extraction (removal) of minerals and metals from earth. Manganese, tantalum, cassiterite, copper, tin, nickel, bauxite (aluminum ore), iron ore, gold, silver, and diamonds are just some examples of what is mined.

Mining is a money making business. Not only do mining companies prosper, but governments also make money from revenues. Workers also receive income and benefits. Gold Mining is the removal of minerals from the earth’s crust in the service of man (down and stock, 1977 cited in Acheampong, 2004). The Encarta encyclopedia also defines mining as the selective recovery of Minerals, other than recently formed organic materials from the crust of the earth (Encarta, 2005).

Revenue
Revenue means the income of a government from taxation, excise duties, customs, or other sources, appropriated to the payment of the public expenses. The revenue collected from the government department charged with the collection of such
income. Government revenue is revenue received by a government. It is an important tool of the fiscal policy of the government and is the opposite factor of government spending. Revenues earned by the government are received from sources such as taxes levied on the incomes and wealth accumulation of individuals and corporations and on the goods and services produced, exported and imported from the country, non-taxable sources such as government-owned corporations’ incomes, central bank revenue and capital receipts in the form of external loans and debts from international financial institutions.

**Expenditure**

Government expenditure, also known as government spending, refers to the resources a government allocates to achieve its strategic objectives and satisfy the needs of the members of the nation. Governments spend money on health care, education, Social Security benefits, and infrastructure and defense activities. Annual government budgets specify the breakdown of funds for a fiscal year. Total government expenditure includes federal government expenditure, as well as state and local government expenditure. Government expenditure relates to the objectives of a government, such as price stability, financial control and economic growth. Governments spend to maintain bridges, roads, harbors and canals, on defense activities, to protect trade, to generate coinage, to provide Social Security and other entitlements and to facilitate education. Therefore for the Government to perform their duty need revenue.

**Gold**

Is a chemical element with the symbol Au. It is a dense, soft, malleable, and ductile metal with a bright yellow color and luster that is considered attractive, which is maintained without tarnishing in air or water. It is one of the least reactive chemical elements, solid under standard conditions. The metal therefore occurs often in free elemental (native) form, as nuggets or grains in rocks, in veins and in alluvial deposits. Less commonly, it occurs in minerals as gold compounds, usually with tellurium. Gold resists attacks by individual acids, but it can be dissolved by the aqua regia (nitro-hydrochloric acid), so named because it dissolves gold. Gold also
dissolves in alkaline solutions of cyanide, which have been used in mining. It dissolves in mercury, forming amalgam alloys; is insoluble in nitric acid, which dissolves silver and base metals, a property that has long been used to confirm the presence of gold in items, giving rise to the term acid test.

This metal has been a valuable and highly sought-after precious metal for coinage, jewelry, and other arts since long before the beginning of recorded history. Gold standards have sometimes been monetary policies, but were widely supplanted by fiat currency starting in the 1930s.

2.2.2 Mining History in Tanzania

The first organized prospecting and mining in Tanzania took place during the German colonial period, beginning with gold discoveries in the Lake Victoria region in 1894. The first mining operation began at the Sekenke Mine, which opened in 1909. By 1930, gold production was substantial and continued to increase steadily until World War II. After the war, Tanzania’s gold industry declined dramatically; it reached a point of near insignificance by 1967. It was not until 1974-75 that this began to reverse, which came as the result of a sudden increase in the world gold price. Despite this revival, however, the mining sector still failed to attract the kind of large and modern investment seen in other sectors of the Tanzanian economy throughout the late 1970s and the 1980s1. Consequently, the mines in operation during this time period were those established by colonists and run by the government after independence.

Over the course of the 1980s and 1990s, the Tanzanian government undertook significant economic policy reforms, which included the National Economic Survival Program in 1981, the Structural Adjustment Program in 1983 and a donor-sponsored Economic Recovery Program (ERP) in 1986. In 1989, the ERP Program was modified to create the Economic and Social Action Program. The overall objective of these reforms was to increase the role of the private sector in the economic and social development of the country. Hence, many existing policies were reviewed so as to
provide room for the private sector to make a contribution, especially through investments in production activities.

This pro business policy orientation also focused on installing modern management systems, thereby attracting investment that would bring technology transfer and needed investment to various economic sectors, including the mineral sector. With respect to the mineral sector, the government began its attempts to capture revenues from it by licensing private companies to buy, cut and export gemstones being produced by small-scale miners.

However, full recognition of the potential of the country’s mineral sector would not come until the next decade. The 1990s brought with it an increasing awareness of the economic potential of Tanzania’s mining industry, and it was during this time that the country began liberalizing and privatizing its minerals sector.

Given that Tanzania is one of Africa’s largest gold producers, the expectation has been that mining would contribute significantly to its economic development. This expectation has not been fulfilled. The International Monetary Fund (IMF) notes that gold exports have risen from around US$ 500 million to US$ 1.5 billion in the last five years due to rising gold prices, but that government revenues have remained at around US$ 100 million per year. This is largely because of the corporate income tax holidays provided to mining companies. In fact, ‘none of the existing gold projects have paid material income tax to date’, the IMF notes.

It is further reported that, mining revenues will not grow much in the near future. According to the IMF, ‘the growing mining sector has so far had little net fiscal impact and this is unlikely to change in the coming years, partly because of large embedded tax holidays’. Although a new

Mining Act was passed in 2010; existing gold mines remain governed by their respective agreements signed prior to the law currently in force. Revenue losses from tax incentives granted to mining companies are significant, although the overall figures have never been calculated.
Selected examples are quoted below:

i. The Bomani Commission estimated that the government lost T.Shs 39.8 billion in 2006/7 and T.Shs 59 billion in 2007/8 simply as a result of fuel levy exemptions granted to the six large mining companies.

ii. As of late 2011, mining companies were making claims to the government for refunds totaling US$ 274 million related to their fuel levy exemptions for the period since 2002.

iii. Mining companies have exclusive ownership of their operations and the minerals recovered and the power to dispose of them as they wish including to transfer those rights to other companies without incurring capital gains tax. This means that the practice of buying and selling mining operations is legal and is very lucrative.

iv. Mining companies’ ability to offset against their taxable income the full costs of their expenditure on items such as plant and machinery has lead to perpetual declaration of tax losses, and thus nonpayment of corporate income tax.

v. In response to this in 2008 government introduced an Alternative Minimum Tax of 0.3% of turnover, payable when companies declare three consecutive years of tax losses, although it is likely that revenues from this tax are far lower than the losses caused by the capital allowance

vi. In 2010, Tanzania Minerals Audit Agency (TMAA) audited 12 mining companies and reported audit ‘queries’ comprising over-declared capital allowances and operating expenditures of a total of $705.8 million implying a tax liability of about $176 million. It was the first time TMAA conducted audits on mining companies. It is therefore possible that similar alleged over-claims were made by some companies in previous years.
Costs of Incentives
Tax incentives imply that the money that could be collected as taxes is not collected, which implies fewer funds in the government coffers. This is the money that could otherwise be used to finance some public goods and services in the development and recurrent expenditure budgets. These goods and services include but are not limited to communication, infrastructure such as roads and bridges, and social services such as health, education and water. In economic terms, the exemptions are opportunity costs in that the exempted funds cannot at the same time be available to fund development. It is not prudent therefore to depend so much on donor support while at the same time exempting taxes that should be collected to finance the development and recurrent budgets.

Problems of Tax Incentives
A lot of evidence suggests that the disadvantages of tax incentives vastly outweigh the advantages and that such incentives are not needed to attract FDI. The IMF report argues that countries that have been most successful in attracting foreign investors have not offered large tax or other incentives. This reasoning partly explains why the IMF, and other international Organizations such as the African Development Bank have been pressing Tanzania to radically reduce their tax exemptions. In addition, there is a long list of disadvantages with tax incentives, as outlined in a recent IMF report, which argues among other things that they:

i. Result in a loss of current and future tax revenue; Create differences in effective tax rates and thus distortions between activities that are subsidized and those are not; Could require large administrative resources; Could result in rent-seeking and other undesirable activities;

ii. Could, in the case of income tax holidays, be a particularly ineffective way of promoting investment companies that are not profitable in the early years of operation; and could attract mainly footloose firms. Tax holidays strongly favour transitory rather than sustainable investments and create glaring opportunities for aggressive tax avoidance.
Tax incentives are also prone to abuse when the incentive is exhausted and the promoters of the business fraudulently wind it down and simultaneously establish another entity to be accorded the same tax incentives. The IMF notes that investment incentives, if they are to be of benefit, should be well targeted and focused narrowly on the activities they seek to promote.

In Tanzania there is a considerable history of exploration and production, in particular of gold, diamonds and gemstones. The earliest discoveries and attempts at larger-scale production came during German colonial rule from the late 19th century to the First World War. Several of the current significant deposits of gold, such as the Geita gold mine and the large region of this area in northern Tanzania, have therefore been mined for a long time.

Independence in Tanzania in 1961 seemed to bring similar stagnation in the mining sector, following nationalization and state control, to that observed in Zambia during the first decade after independence. For a time, diamond mining became more important in Tanzania, with up to 70 per cent of the total value of national mining production. Similar to Zambia, a national company, the State Mining Company Ltd. (STAMICO), was established in 1972 to operate the major deposits. Levels of reinvestment were low, and gold production in particular suffered in this period.

In the 1980s a period of liberalization started in the Tanzanian economy, followed by privatization in the 1990s. Initially this led to an increase in small-scale and artisanal mining.

This was followed in the latter part of the period by large-scale commercial gold and diamond mining, with international mining companies and foreign capital and technology. Between 1998 and 2005, six large-scale gold mining operations were opened (several, if not all, in historic gold deposit areas): Geita, North Mara, Buzwagi, Bulyanhulu, Tulawaka and Golden Pride. Through its fully-owned entity, African Barrick Gold, the largest gold mining company in the world - Canadian Barrick - established 100 per cent ownership of North Mara, Buswagi and
Bulyanhulu, and 70 per cent of Tulawaka. Of the remaining two large gold mines, Anglo Gold Ashanti (South African-Ghanaian partnership) owns the Geita mine, and Resolute Ltd. (an Australian company) owns Golden Pride mine.

Since privatization of large-scale gold mining operations in Tanzania, an estimated USD 2-3 billion of foreign investment has been made in the sector, the number of mining licenses in Tanzania has increased from 9 in 1990 to 4,000 active large-scale licenses in 2007, and employment in large-scale mines has increased from a few thousand up to 10,000 people. Measures of indirect employment are difficult to come by, but it has been said that this may have increased from just above 10,000 to over 60,000 people. These numbers, however, are very small compared to estimates of 150,000-500,000 people employed in informal mining in Tanzania (Lange 2006).

The level of earnings and overall contribution to the national economy from informal mining, however, seem very small. Despite the prolonged low international gold price from the late 1940s to 1971/2, mining (primarily gold) in the early 1960s already contributed between 3-4 per cent of Gross Domestic Product (GDP) (Lange 2006).

In recent decades, Tanzania as one of non-oil producing countries in Africa has recognized the significance of encouraging the FDI inflows to its economy in order to compete with other countries with bigger local markets and more favorable environments with on-demand natural resources for foreign investments (for instance, oil producing nations). The flourishing incoming FDIs to the mining sector have had a substantial impact on the mining industry and the local economy. The incoming MNEs have helped the country in; boosting government revenues through tax revenues, human capital formation, transfer of knowhow and technology, etc. The efforts by the central government which in the year 2004 saw the country’s GDP surge with the rise in economic growth led the country being named by FDI Magazine as the best economic potential in Africa for the year 2005-2006 behind South Africa, with the promising trend to date.
Although Tanzania has successfully attracted a significant amount of FDIs in the mining sector, however, still questions surround the actual benefits of the incoming foreign capital to the local economy and common citizens. People are questioning on how sincere are the granted incentives and if the tax authorities in the country are being overgenerous to the incoming MNEs. For instance, the country is locked in some investment contracts under ludicrous tax regimes that go for up to 50 years with huge tax exemptions and very low loyalty rates. This has contributed much to the country being ranked as one of the 10 poorest countries in the world although the country is a third largest producer of gold in Africa. Several reports have critically disapproved these tax incentives as of being harmful to the country and the overall welfare of the locals.

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

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

As already mentioned above, gold mining sector has become one of the top contributors to Tanzania’s economy surpassing most of the traditional contributors of the local economy (agriculture). This sector contributes about 50 percent of the total government revenues with Geita gold mine, in Mwanza region, being the largest gold mining site in the country and contributes a bigger share of the total gold exports. Since the year 2000, mining in the country has generated about 67 percent of the overall FDIs to the country (US$ 2 billion of the total US$ 3 billion FDI inflows).

Various reports by relevant sources such as UNCTAD show that the development of the country’s gold mining sector has shown a strong momentum and if local authorities sincerely decide to step up strong measures to curb the existing constraints which cripple the sector, the country will realize a smooth running of the sector and positive contribution to the nation.

The current policies don’t provide enough protection to local civilians who are engaged in gold mining activities which in a number of times has caused violence to erupt in some parts of the country whereby locals who depend in that sector for living were forced to move to other places “supposedly with less gold deposits” paving way for large investments in their locations. The absence of transparency in majority of the processes, from signing of contracts to the granting of overly favorable tax incentives to the MNEs has raised eye browses of many people and they question if there is any sincere intention to have the locals enjoy the national cake.

Though there are various issues with the mining policy in the country, but Tanzania has maintained a solid performance compared to other African countries. For instance, among East African countries, Tanzania is ranked fairly higher than Kenya and Uganda on the investment climate. This is well shown on the report by the World Bank (2004) on the Investment climate in East Africa
As previously noted above, the existing mining policies favor the incoming MNEs, giving them a chance to unfairly profit from their investments in the local economy for decades with huge tax cuts or total exemptions. The existing mining laws seem to not have teeth sharp enough to press mining companies into sustainable contracts, for instance, the MNEs can “easily” walk away after they are “satisfied” that the mining sites they were operating in don’t have any substantial deposits leaving behind useless (polluted) land. Also, in some areas, e.g., Mara region, there were claims connecting the mining activities in one of the mining sites with the water pollution, the claims which later led to the closure of the particular mining site. Several people died and many other infected after consuming contaminated water from the water sources near the mining site. The authorities couldn’t act quick enough to solve the problem and the existing mining laws couldn’t effectively solve the matter or severely punished all relevant sides involved in causing the catastrophe.

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

Indeed, policymakers were not mistaken. In the late-1990s, Tanzania experienced a mineral boom that is still occurring. According to Phillips et al. (2001), a key policy decision that set off the boom was the dismantlement of the state-owned mineral monopoly, STAMICO, which allowed any Tanzanian individual to register claims and sell minerals. Since the onset of the boom, Tanzania has risen to a position of importance in African mineral production. In 2007, it was the third largest gold
exporter in sub-Saharan Africa, behind Ghana and Mali. It is also the 32nd largest diamond exporter in the world by volume. The foreign direct investment that the mineral sector has brought in has also been substantial, as it helped the country to become the second largest non-oil recipient of foreign direct investment in Africa in 2007, when it received US$5.94 billion (UNCTAD, 2008). In addition to gold and diamonds, colored gemstones are also mined extensively in the country (ABN Newswire, 2009). More recently, significant uranium deposits have also been discovered. While Tanzania is not yet a global heavyweight in the mineral production, the sector is very important to the country’s economy.

2.3 Empirical Literature Review

In Tanzania there is a considerable history of exploration and production, in particular of gold, diamonds and gemstones. The earliest discoveries and attempts at larger-scale production came during German colonial rule from the late 19th century to the First World War. Several of the current significant deposits of gold, such as the Geita gold mine and the large region of this area in northern Tanzania, have therefore been mined for a long time. Independence in Tanzania in 1961 seemed to bring similar stagnation in the mining sector, following nationalization and state control, to that observed in Zambia during the first decade after independence. For a time, diamond mining became more important in Tanzania, with up to 70 per cent of the total value of national mining production. Similar to Zambia, a national company, the State Mining Company Ltd. (STAMICO), was established in 1972 to operate the major deposits. Levels of reinvestment were low, and gold production in particular suffered in this period. In the 1980s a period of liberalization started in the Tanzanian economy, followed by Privatization in the 1990s.

Initially this led to an increase in small-scale and artisanal mining sector has contributed between 4-5 per cent of GDP in recent years. These figures indicate that mining has always made a much more modest contribution to the national economy in Tanzania than in Zambia. Another fundamental difference in Tanzania compared to Zambia was the global price trend observed for copper versus gold. Whereas
copper maintained high global prices for most of the 1950s up to the early 1970s, gold prices kept low from the late 1940s up to 1971/2. Then, contrary to copper (which then went into a prolonged period of low global prices), the global gold price saw a tenfold increase between 1971/2 and the end of the 1980s. Despite this opportunity, the mining sector overall stagnated in this period in Tanzania. By 1988, its contribution was only 1 per cent of GDP and 0.3 per cent of government revenue (Lane 1996).

According to Philips et al (2001), a key policy decision that set off the boom was the dismantlement of the state–owned mineral monopoly, STAMICO, which allowed any Tanzania individual to register claims and sell minerals. Since the onset of the boom, Tanzania has risen to a position of importance in African mineral production. Due to the potentiality of the Minerals the government decided to establish the Ministry which will guide the utilization of the resources and this was followed in the latter part of the period by large-scale commercial gold and diamond mining, with international mining companies and foreign capital and technology. Between 1998 and 2005, six large-scale gold mining operations were opened (several, if not all, in Historic gold deposit areas): Geita, North Mara, Buzwagi, Bulyanhulu, Tulawaka and Golden Pride.

Through its fully-owned entity African Barrick Gold, the largest gold mining company in the world-Canadian Barrick-established 100 per cent ownership of North Mara, Buswagi and Bulyanhulu, and 70 per cent of Tulawaka. Of the remaining two large gold mines, Anglo Gold Ashanti (South African-Ghanaian partnership) owns the Geita mine, and Resolute Ltd. (an Australian company) owns Golden Pride mine. Since privatization of large-scale gold mining operations in Tanzania, an estimated USD 2-3 billion of foreign investment has been made in the sector, the number of mining licenses’ in Tanzania has increased from 9 in 1990 to 4,000 active large-scale licenses’ in 2007, and employment in large scale mines has increased from a few thousand up to 10,000 people. Measures of indirect employment are difficult to come by, but it has been said that this may have increased from just above 10,000 to over
60,000 people. These numbers, however, are very small compared to estimates of 150,000-500,000 people employed in informal mining in Tanzania.

2.4 Conceptual Framework

2.4.1 Description of Framework
Conceptual framework is a conceptual model of how theories make logical sense of the relationship among the several factors that have been identified as important to the problem (Sekarani 2003). It aims at indicating the most important areas to be covered by the study.

Figure 2.1: Conceptual Framework Model

Tanzania in particular, despite various interventions aimed at improving the revenue collection systems in Public sectors and Private sectors and Local organizations and International Organizations, the legal and regulatory framework is bureaucratic, costly and most of all not adhered to by most of the individuals. These characteristics of the legal and regulatory environment affect all sizes of organizations in particular and especially where the resources of income generated. The conceptual frame work of this study considers revenue collection in Tanzania where Gold mining companies uses various methods in paying Taxes.
The Government uses different sources of collecting revenue from six big companies and these sources of revenue include Royalties, Application fees, and Annual Rent. For the Government to achieve they put mechanisms such Policy, Procedures, Laws and Tax rate in making sure that the revenue are collected.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Research methodology is the systematic way to solve the research problem. It may be understood as a science of studying how research is done scientifically. This chapter presents the methodology and procedures used in the study, which include research design, types of data, and methods of data collection, analysis and presentation.

3.2 Research Design

The research has been conducted at Tanzania Ministry of Energy and Minerals using the case study design. This design was used to help the researcher to required, appropriate and adequate data to find out the influence of revenue collection from Gold Mining Sector in Ministry of Energy and Minerals in Tanzania. A case study is an in-depth comprehensive study of a person social group, a community, an institute or any social unit (Krinishnaswami 1993). This case study design enables the researcher to be flexible in acquiring data as it employs more than one techniques, it uses historical method, employs interviewing, questionnaires, observation and documentary review. This is a plan that specifies how data from the study was collected and analyzed. For the proposed study, a case study designed was applied to get the necessary required information. The case study design was chosen due to its ability to provide in-depth of the case to be studied.

3.3 Study Area

The study conducted at the Ministry of Energy and Minerals in Tanzania. The choice of study area was influenced by time and financial constraints the researcher faced.
Tanzania Ministry of Energy and Minerals officials were used as the universe to obtain the sample.

3.4 Types of Data

Quantitative and qualitative data was used by the researcher to collect data; here both secondary and primary data were collected by the researcher during data collection.

3.5 Sampling Procedures

Simple random sampling was employed to obtain respondents to the study; where by the appropriate sample size were 100 respondents who are Ministry of Energy and Minerals officials. From table 3.1: 100 Questionnaires were distributed to Ministry of Energy and Minerals.

Table 3.1: Category of Respondents

<table>
<thead>
<tr>
<th>Organization</th>
<th>Ministry of Energy and Minerals (MEM) officials</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Analyzed data, 2013

Where: MEM-Ministry of Energy and Minerals

3.6 Research Instruments

Due to the design chosen, the following instructions were employed.

(a) Interview

Interview was conducted to collect qualitative information such as opinions and views of the study. Interviews were guided by interview guide questions. Ministry of Energy and Minerals officials were interviewed during data collection; they were able to come up with the answers on interview questions. The advantages of using interview was quick method of gathering information, the researcher would know
whether the respondents understands the questions and the method was not restricted to educated class alone.

(b) **Questionnaire**

Is a pre-formulated written set of questions to which respondents record their answers, usually within rather closely defined alternatives (Kothari, 2001). Questionnaires were open-ended questions, which allowed individuals to express their views concerning the influence of revenue Collection from Gold Mining Sector in Ministry of Energy and Minerals in Tanzania (see appendix I). The questionnaires were distributed to respondents aimed at getting information regarding the revenue collection from gold mining sector in Tanzania. One of the set of questionnaires was designed for Ministry of Energy and Minerals officials. Numbers of respondents were 96 out of 100.

**3.7 Source of Data**

Both secondary and primary data were employed. Questionnaires and interviews were employed in the collection of primary information. Secondary data obtained from Mining Act 2010 and its regulation, Tanzania Mining Policy (1997), Tanzania Mining Act, cap 123, Mining Taxation (2006) by Tarimo and Tanzania National Budget Report 2010-2013 as well as other relevant literatures.

**3.8 Method of Data Analysis**

Findings have been presented by using statistical procedure/models such as tables and percentages, which were used to summarize the results in order to draw conclusion on influence of revenue collection from Gold Mining Sector in Ministry of Energy and Minerals in Tanzania. The study applied both qualitative and quantitative analysis techniques. The researcher used Microsoft word and Excel in analyzing both primary and secondary data. With the use of Microsoft word and Excel the researcher was able to analyze the information from the findings quickly. The analysis was guided by research objectives and research questions.
Data analysis techniques Patton (2002) for instance, mentions different forms of analysis, which include unique case orientation, holistic perspectives, context sensitivity, voice, perspectives, and reflexivity, and inductive analysis and creative synthesis. The analysis strategy the researcher propose to use in the study for the data collected was the inductive analysis, where inductive analysis is a social science approach were data are to be collected, formulated theories, through interview and to understand the nature of the problem.

The study also employed a qualitative methodology in collecting and analyzing data. The selected methodology was considered appropriate to generate desirable and relevant data. The strategy employed methods of data collection that would capture the in-depth and detailed data depending on the purpose of the study, manageable sample size and the affordable costs (Best 1995). The purpose was to generate the in-depth and detailed data that would enhance to understand the significance of revenue collection by the government on the improvement of poor community in Tanzania through Ministry of Energy and Minerals. In addition to that the strategy enhanced to elicit first hand information from the respondents by physically visiting them to their places. This is supported by (Creswell, 2003 Silverman, 1993; Strauss and Corbin, 1990) by saying that the qualitative researcher has often go to the site (home, office) of the participant to conduct the research and in turn this enables the researcher to develop a level of detail about the individual place and to be highly involved in actual experience of the participant.
CHAPTER FOUR

DATA PRESENTATION, ANALYSIS AND DISCUSSION OF THE FINDINGS

4.1 Introduction

This chapter provides analysis and discussion of the findings. The analysis and discussion in this chapter based on the responses from the study questionnaires, interview questions and secondary data information. The study intended to find out influence of revenue collection from Gold Mining Sector in Ministry of Energy and Minerals in Tanzania. The study focus was to identify the sources of Revenue arising from Gold Mining sector in Tanzania, identify the rate used to assess the Revenue collection arising from Gold Mining sector in Tanzania and finally examine the law and procedures used in collecting Revenue from Gold mining sector in Tanzania.

4.2 Sources of Revenue arising from Gold Mining sector in Tanzania

According to Tanzania mining policy (1997) and Mining Act, 2010, the main sources of revenue from gold included royalties, application fees, pay as you earn (PAYE), corporate tax and company profits.

4.2.1 Royalties

The analysis revealed that, in the sample, majority of respondents mentioned royalty as the main source of revenue from gold mining sector in Tanzania. As summarized in Table 3 below out of 96 interviewed respondents, 85 of them (88%) indicated that mentioned royalty was the major source of revenue in Tanzania as opposed to (11.4%) of 96 that indicated as was not. Majority of respondents in this case argued that gold mining revenue was the potential source of revenue in Tanzania where the government could be proud of; the gold mining revenue accounted 60% of all
revenues collected from gold, hence, the government could pay attention on the revenue attained from gold mining to finance its budget deficit.

Table 4.1: Revenue Sources and Percentage of Scores

<table>
<thead>
<tr>
<th>Revenue Sources</th>
<th>No. of respondents</th>
<th>Actual No. of respondents</th>
<th>Total scores (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royalty</td>
<td>96</td>
<td>85</td>
<td>88%</td>
</tr>
<tr>
<td>Corporate tax</td>
<td>96</td>
<td>47</td>
<td>49%</td>
</tr>
<tr>
<td>PAYE</td>
<td>96</td>
<td>35</td>
<td>36</td>
</tr>
<tr>
<td>Application fees</td>
<td>96</td>
<td>25</td>
<td>26%</td>
</tr>
</tbody>
</table>

Source: Field Data, 2013

In addition, Tanzania mining law stipulated that one of the main sources of revenue for the government from gold mining sector was royalties: Tanzania’s mining law stipulated a royalty rate of 4 per cent on gold which regarded as too low to ensure a fair return to Tanzanians as regarded by many Tanzanians (Tanzania Mining Act, 2010). Likewise, the royalty was calculated as a proportion not of the total production value of the minerals but of their net back value. This was defined as the market value of the minerals minus the cost of transport and the cost of smelting or refining in-country. However, this was not paid in full by various mining companies in Tanzania as indicated by various literatures (Curtis and Lissu, 2008).

Reviewed empirical data from secondary information, as summarized in table 5 below revealed that revenue collection from royalties in Tanzania from 2000-2006 in US Dollars as showed by Anglo Gold Ashanti Report 2008. The table 4.2 below summarized Tanzania export gold mine as shown under column 3.
Table 4.2: Figures of Revenue from Gold Mining in Tanzania

<table>
<thead>
<tr>
<th>Source/Date</th>
<th>Minerals</th>
<th>Coverage</th>
<th>Govt Revenues all taxes &amp; royalties (US$)</th>
<th>Gold Exports over the same period (US$)</th>
<th>Govt Revenue as a proportion of exports (%)</th>
<th>Govt Revenue per year (US$)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tanzanian Chamber of Mines, March 2008&lt;sup&gt;2&lt;/sup&gt;</td>
<td>All mining companies</td>
<td>1997 - 2005</td>
<td>255.5m</td>
<td>2.540m</td>
<td>10.1</td>
<td>28.4m</td>
</tr>
<tr>
<td>Government Commissioner for Minerals, October 2007&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Gold</td>
<td>1998 - 2006</td>
<td>253.8m</td>
<td>Not provided</td>
<td>n/a</td>
<td>28.7m</td>
</tr>
<tr>
<td>Deputy Minister for Energy &amp; Minerals, July 2007&lt;sup&gt;2&lt;/sup&gt;</td>
<td>Gold</td>
<td>2001 - 2006</td>
<td>777m</td>
<td>Shs3.38 trillion (US$2.65m)</td>
<td>3.0</td>
<td>15m</td>
</tr>
<tr>
<td>Government figures cited by UNCTAD, 2005&lt;sup&gt;2&lt;/sup&gt;</td>
<td>All minerals</td>
<td>1998 - 2005</td>
<td>252m</td>
<td>2.86m</td>
<td>8.9</td>
<td>36m</td>
</tr>
<tr>
<td>Ministry of Energy and Minerals, 2005 publication&lt;sup&gt;2&lt;/sup&gt;</td>
<td>All ‘major mines’ in the country</td>
<td>1998 - 2002</td>
<td>85.4m</td>
<td>Not provided</td>
<td>6.4</td>
<td>17.28m</td>
</tr>
<tr>
<td>UNCTAD, 2005&lt;sup&gt;2&lt;/sup&gt;</td>
<td>The six major mining companies</td>
<td>1997 - 2002</td>
<td>85.9m</td>
<td>890m</td>
<td>9.8</td>
<td>14.5m</td>
</tr>
<tr>
<td>Minister for Energy and Minerals, 2006&lt;sup&gt;2&lt;/sup&gt;</td>
<td>All minerals (gold, diamonds, Tanzania)</td>
<td>1997 - 2002</td>
<td>86.8m</td>
<td>895.8m</td>
<td>9.7</td>
<td>14.5m</td>
</tr>
<tr>
<td><strong>VARIATIONS</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.0 - 13.1</td>
<td>13 - 36m</td>
</tr>
</tbody>
</table>


4.2.2 Corporate Tax and company profits

Secondary information revealed that all mining companies must pay tax out of profit made from mining operations (Tanzania mining policy, 1997). Corporation tax was one of the major ways a country can benefit from mining and is set at 30% of profit under Tanzanian law; however this has not been the case in Tanzania because
government ministers were saying that not a single gold mining company had paid corporation tax.

Certainly, this was supported by the Commissioner for Minerals by then, Dr Peter Kafumu, when he told the media in March 2007 that ‘corporate tax would be paid when the mining companies made profit, otherwise they could not pay. Table 4.3 indicate corporate Tax paid by Mining from 2000-2007.

Table 4.3: (ANGLO GOLD ASHANTI) Tax Payments, 2000-06 (US$ M)

<table>
<thead>
<tr>
<th>Year</th>
<th>AGA’s tax payments</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>$4.1 total (of which 1.2 royalty, 1.5 withholding tax)</td>
</tr>
<tr>
<td>2001</td>
<td>$6.6 total (of which 4.2 royalty, 1.5 withholding tax)</td>
</tr>
<tr>
<td>2002</td>
<td>$10.7 total (of which 5.4 royalty, 1.5 withholding tax)</td>
</tr>
<tr>
<td>2003</td>
<td>$6.1 total (of which 7.2 withholding tax)</td>
</tr>
<tr>
<td>2004</td>
<td>$7.6 total (of which 9.8 withholding tax, 3.3 in taxes, leases and duties)</td>
</tr>
<tr>
<td>2005</td>
<td>$5.5 total (of which 7.9 withholding tax, 6.2 income 1.7 in leases and duties)</td>
</tr>
<tr>
<td>2006</td>
<td>$5.65 total (of which 5.6 royalty, 1.1 corporate tax, 1.1 import duties; 6.2% non-recoverable VAT and other included taxes)</td>
</tr>
<tr>
<td>2007</td>
<td>$41.6 (of which 6.3 royalty; 25% other taxes and duties; 3.0 ‘corporate taxation provision’; 5.2 VAT, 7.2 employee taxes)</td>
</tr>
</tbody>
</table>


Similarly, the tax incentives given to companies enabled them to start paying corporation tax only when they had recouped their initial investment (especially through their ability to carry forward their losses and offset their capital expenditure against tax), and enabled them to avoid liability for income tax. However, AGA, according to its accounts, paid US$1m in corporation tax for 2006 and also made provision for corporation tax in 2007 as indicated on table 3 above. Therefore, this information match with the respondents’ opinion where corporate tax as the main source of revenue to the government from gold mining as summarized on Figure 4.1 below that out of 96 respondents, 47 of them (49%) indicated gold mining was one of the sources of revenues in Tanzania (AGA’s Tax payment Report, 2008)

**Figure 4.1:** Corporate Tax and Company Profits

![Revenue sources diagram](image)

Source: Field findings, 2013
Further, six large gold mines were responsible for much of the country's production. Barrick Gold, the world's largest gold miner that ran Bulyanhulu, with 12m ounces in gold reserves. Likewise, Barrick owned Buzwagi with 3.3m ounces and North Mara with 3m ounces. Moreover, it maintained a 70% stake in Tulawaka with 80,000 ounces. Anglo Gold Ashanti (AGA) operated Geita with 5.1m ounces, and Resolute Mining Ltd own Golden Pride with 2.5m ounces. These companies had yet to pay corporate income taxes because of capital allowances and other tax exemptions under current legislation. An overall contribution for mining was 4% of government tax revenue, equivalent to USD100m a year (Data source). The production accounted for 3.5% of GDP (Tanzania Extractive Industries Transparency Initiative Report, 2011).

Moreover, corporate tax scored 47% of respondents’ opinions, where the government earned small amount of revenue from huge profit made by mining company in Tanzania. According to field findings, the government lost a lot of revenue which could be collected from the profit made by mining companies because of fictitious loss declared by various mining companies every financial year. The government did not care for the losses declared by mining companies every year regardless of high gold price in the world market. With that the government should embark on legal measures on mining companies declaring fictitious loses by punishing them.

4.2.3 PAYE and Application fees

4.2.3.1 Pay As You Earn (PAYE)

The analysed data revealed that, application fees and Pay as you earn (PAYE) taxable from employees’ revenues was another source of government revenue rising from gold mining. The government did collect revenue from gold mining companies’ employees in terms of PAYE which was taxable on monthly salaries.
Apart from the analysis that the government earned revenue through application fees like mining licensing fees and other related mining fees (Tanzania Mining Act, 2010).

According to respondents opinion this is the source of revenue where the government low amount of revenue from gold mining because even the amount charged as application fees is very little compared to resources harnessed by investors from minerals sector as indicated in Figure 4.2 below.

**Figure 4.2:** Application Fees and PAYE

![Pie chart showing revenue sources]

Source: Field Findings
The study identified that Pay as You Earn (PAYE) was also another source of revenue from gold mining sector through taxing employees’ salaries every month. According to respondents’ opinions still the government has not been keen in collecting revenues from employees’ salaries where most of the people working in mining sector their income are not taxable particularly expatriates since their income was remitted in their home countries as summarized on Figure 3 above whereby PAYE scored 36% only out of 100%.

4.2.3.2 Application Fees

The analysis revealed that, the amount of application fees charged by the government from mining sector was very low compared to revenue and profits earned by mining companies. Therefore the government should increase the amount charged as application fees in mining companies to match with revenues earned by mining companies. The analysed data showed that only 26% of the interviewed respondents mentioned application fees as a source of revenue from mining sector in Tanzania as opposed to 74% of respondents who did not accept as main source of income to the Government of Tanzania. As summarized on Figure 3 above.

4.3 Rate used to assess the Revenue Collection arose from Gold Mining Sector in Tanzania

According to Income Tax Act 2004 section 3 and section 4 the following were the rate used to assess the revenue collection arose from gold mining sector in Tanzania.

Table 4.4: Rate charged on Revenue arising from Main Gold Mining Sector

<table>
<thead>
<tr>
<th>Type of Taxes</th>
<th>Rate charged</th>
</tr>
</thead>
<tbody>
<tr>
<td>Royalties</td>
<td>4%</td>
</tr>
<tr>
<td>Corporate tax</td>
<td>30%</td>
</tr>
<tr>
<td>PAYE</td>
<td>14%</td>
</tr>
</tbody>
</table>

Source: Tanzania Ministry of Energy and Minerals Data Base, 2013
4.3.1 Royalties

According to Mining act 2010; the Royalty was charged at 4% and calculated as a proportion not of the total production value of the minerals but of their net back value. This was defined as the market value of the minerals minus the cost of transport and the cost of smelting or refining in-country. However, this had not been paid in full by various mining companies in Tanzania because of lack of serious follow up in revenue collection by Tanzania Revenue Authorities (Tanzania Extractive Industries Transparency Initiative Report, 2011).

4.3.2 Corporate Tax

The Income Tax Act, 2004; Corporation tax was one of the major ways a country could benefit from mining and was set at 30% of profit under Tanzanian law, however, this had not been the case in Tanzania because government ministers declared that not a single gold mining company had paid corporation tax because of a lot of incentives offered by the government to mining companies. The corporate tax would be paid when mining companies could make profit, otherwise they would not pay. Nevertheless, in other countries corporate tax rate was higher and had been paid to the government by mining companies.

4.3.3 Pay As You Earn (PAYE)

The reviewed Income Tax Act, 2004 revealed that, normally the government did collect revenue from gold mining companies’ employees in terms of PAYE which was taxable on monthly salaries. The rate charged on PAYE varies from one year of income to another but for 2013/2014 was charged at the rate of 14% (Tanzania National Budget, 2013/2014). Table 4.5 below indicated various taxes charged on revenues arose from gold mining sector in various countries in Africa compared to Tanzania.
Table 4.5: Main Elements of Mining Tax Regimes in Seven Countries

<table>
<thead>
<tr>
<th>Country</th>
<th>Royalty</th>
<th>CIT</th>
<th>WHT</th>
<th>Allowance</th>
<th>Ring-fencing</th>
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<tr>
<td>Zambia</td>
<td>0.5-3%</td>
<td>30%</td>
<td>0.15%</td>
<td>100%</td>
<td>No</td>
</tr>
<tr>
<td>Tanzania</td>
<td>3-4%</td>
<td>30%</td>
<td>2-10%</td>
<td>100%</td>
<td>No</td>
</tr>
<tr>
<td>Ghana</td>
<td>3-5%</td>
<td>25%</td>
<td>0.8%</td>
<td>80-100%</td>
<td>No</td>
</tr>
<tr>
<td>South Africa</td>
<td>1-3.4%</td>
<td>28-34%</td>
<td>0.42%</td>
<td>100%</td>
<td>Yes</td>
</tr>
<tr>
<td>Botswana</td>
<td>3-10%</td>
<td>22%</td>
<td>7.5%</td>
<td>100%</td>
<td>No</td>
</tr>
<tr>
<td>Chile</td>
<td>5%</td>
<td>17-20%</td>
<td>4-30%</td>
<td>Straight line</td>
<td>No</td>
</tr>
<tr>
<td>Australia</td>
<td>0-18%</td>
<td>30%</td>
<td>5-30%</td>
<td>Life of mine/asset</td>
<td>No</td>
</tr>
</tbody>
</table>

Source: PwC (2010)

4.4 Examining Law and Procedures used in collecting Revenue from Gold mining sector in Tanzania

The Energy and Minerals Ministry and the Tanzania Revenue Authority both collected payments from mining companies. Companies made some direct payments to support community development; otherwise, all revenues could go to the treasury. After years of receiving very little in royalty payments from mining companies, the 2010 Mining Act increased the royalty rates between one and four percent depending on the mineral, although contract negotiations with extractive companies continue to be opaque or not clear. According to Income Tax Act, 2004 that was revised in 2006 and Mining Act, 2010, the law and procedures used by the government in collecting revenue from gold mining sector in Tanzania were common as the one used in other sectors of the economy. This had been given by Income tax Act, 2004 as stated by section 78 & 79 of income tax Act, 2004: Section 78.- (1) Tax payable under this Act means - (a) income tax imposed under section 4(1), including amounts payable by a withholding agent or withholder under Division II, by an installment payer under
Division III and on assessment under Division IV of this Part; (b) interest and penalties imposed by assessment under Division I of Part VIII;
(c) An amount required to be paid to the Commissioner in collection from a tax debtor under section 112(9) or 128(3); and (d) an amount required to be paid to the Commissioner in respect of a tax liability of a third party under sections 115(2), 116 (3) or (4), 117(2) or 118(1) or (3). (2) Tax shall be paid to the Commissioner in the form and at the place as may be prescribed.

Section 79.- (1) Subject to the provisions of subsection (2), tax shall be payable –
(a) In the case of income tax payable by withholding, at the time provided for in sections 84;
(b) In the case of income tax payable by installment, on the date by which the installment is to be paid under section 88 or 90;
(c) In the case of income tax payable on an assessment -
   i. Under section 94, on the date by which the return of income must be filed;
   ii. Under section 95, on the date specified in the notice of assessment served under section 97; or
   iii. Under section 96, within thirty days from the date on which the person assessed is served with a notice of assessment under section 97;
(d) In the case of interest and penalties under Division I of Part VIII, on the date specified in the notice of assessment served under section 103;
(e) With respect to amounts required to be paid to the Commissioner under sections 112(9), 117(2), 118(1) or (3) or 128(3), on the date set out in the notice;
(f) With respect to a liability under section 115(2), at the same time as the tax is payable by the entity; or
(g) With respect to amounts required to be paid to the Commissioner under section 116(3) or (4), seven days after the sale from which the amount is set aside or the failure to set aside, respectively
(2) On written application by a person, the Commissioner -

(a) may, where good cause is shown, extend the date on which tax or part of tax is payable including by permitting payment of the tax by installments of equal or varying amounts; and

(b) Shall serve the person with written notice of the Commissioner's decision on the application.

(3) Where an extension is granted under subsection (2) by permitting the person to pay tax by installments and the person defaults in paying any of the installments, the whole balance of the tax outstanding shall become payable immediately.
CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter, summary of the study, conclusions, recommendations and need for further research are presented. The main objective of the study was to examine influence of revenue collection from Gold Mining Sector in Ministry of Energy and Minerals in Tanzania.

The study was conducted through questionnaires and interviews to the selected sample and data were collected and analyzed. Four important areas of the study concern were to identify the sources of Revenue arising from Gold Mining sector in Tanzania, identify the rate used to assess the Revenue collection arising from Gold Mining sector in Tanzania, examining procedure used in collecting Revenue from Gold mining sector in Tanzania and finally examine the law and procedure used in collecting Revenue from Gold mining sector in Tanzania

5.2 Conclusion

The main objective of this study was to examine influence of revenue collection from Gold Mining Sector in Ministry of Energy and Minerals in Tanzania. Data were collected and analyzed. The study revealed the following basing on the purpose of the study.

The study revealed that revenue losses in the Mining Sector in Africa is common to every country. Tanzania is one of Africa’s largest gold producers; the expectation has been that mining would contribute significantly to its economic development. This expectation has not been fulfilled. The International Monetary Fund (IMF) notes that gold exports have risen from around US$ 500 million to US$ 1.5 billion in the last five years due to rising gold prices, but that government revenues have remained at
around US$ 100 million per year. This is largely because of the corporate income tax holidays provided to mining companies. In fact, ‘none of the existing gold projects have paid material income tax to date’, the IMF notes. It is further reported that, mining revenues will not grow much in the near future.

According to the IMF, ‘the growing mining sector has so far had little net fiscal impact and this is unlikely to change in the coming years, partly because of large embedded tax holidays’. Although a new Mining Act was passed in 2010; existing gold mines remain governed by their respective agreements signed prior to the law currently in force.

Mining companies have exclusive ownership of their operations and the minerals recovered and the power to dispose of them as they wish including to transfer those rights to other companies without incurring capital gains tax. This means that the practice of buying and selling mining operations is legal and is very lucrative. Mining companies’ ability to offset against their taxable income the full costs of their expenditure on items such as plant and machinery has lead to perpetual declaration of tax losses, and thus non-payment of corporate income tax.

In 2010, Tanzania Minerals Audit Agency (TMAA) audited 12 mining companies and reported audit ‘queries’ comprising over-declared capital allowances and operating expenditures of a total of $705.8 million implying a tax liability of about $176 million. It was the first time TMAA conducted audits on mining companies. It is therefore possible that similar alleged over-claims were made by some companies in previous years.

The study further revealed the rate charged on royalties and other kind of taxes is still low compared to revenue and profit made by mining companies.

According to table 4.3 above 88% of respondents mentioned royalty as the main source of revenue from gold mining sector in Tanzania, Most of the respondents
argue that the only source of revenue from gold mining in Tanzania where the
government can be proud of is royalty as it account 60% of all revenue collected
from gold, hence the government should look for other source of revenue from gold
to finance its budget deficit.

Corporate tax scored 47% of respondents’ opinions, where the government does earn
small amount of revenue from huge profit made by mining company in Tanzania.
According to various respondents the government loses a lot of revenue which could
be collect from the profit made by mining companies because of fictitious loss
declared by various mining companies every financial year. Bad enough the
government is happy about loses declared by mining companies every year
regardless of high gold price in the world market. With that the government should
embark on legal measures on mining companies declaring fictitious loses by
punishing them.

According to respondents’ opinions the amount of application fees charged by the
government from mining sector is very low compared to revenue and profits earned
by mining companies. Therefore the government should increase the amount charged
as application fees in mining companies to much with revenues earned by mining
companies. And only 26% of the respondents mentioned application fees as a source
of revenue from mining sector in Tanzania

5.3 Recommendations

In accordance with this backdrop, we urge the government to focus on the following
measures:
Undertake a review of all tax incentives with a view to reducing or removing many
of them, especially those that involve the exercise of discretionary powers by
Ministers.
Remove tax incentives granted to attract and retain FDIs, especially those provided
to the mining sector.
Provide on an annual basis, during the budget process, a publicly available tax expenditure analysis, showing annual figures on the cost to the government of tax incentives and showing the beneficiaries of such tax exemptions.
Tax incentives being administered by TIC should be harmonized with those levied by the Tanzania Revenue Authority and other government agencies.

The Government should either limit exemptions to 5% of the total collected revenues or do away with granting tax exemptions which benefit companies which are able to pay taxes.

5.4 Suggestion on the Direction for Future Study

The study was only conducted at Ministry of Energy and Minerals because of lack of sufficient resources in terms of finance and time. A cross-country study could be done covering all Gold mining companies in Tanzania could add more value in the findings
REFERENCES


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Muganyinzi T.K., (2012), Mining Sector Taxation in Tanzania


Public Finance act 2001


The united republic of Tanzania, 1998, the mining act, cap 123
APPENDICES

Appendix 1:  To Respondents

QUESTIONNAIRE FOR MASTERS DEGREE COURSE RESEARCH

Dear Respondent

The following is the questionnaire intending to collect data basing on the following topic: Revenue Collection from Gold Mining Sector in Ministry of Energy and Minerals in Tanzania.

You are requested to assist in responding questions as you know them.

The information contained in the questionnaire will be confidential, and only for research purposes

I anticipate my gratitude to your assistance

Background Information

1. Location.

____________________________________________
____________________________________________
____________________________________________

2. What is your sex?

   (i) Male (   )

   (ii) Female (   )

3. Which category describe your age?

   (i) Below 18 years (   )

   (ii) 18 – 60 years (   )

   (iii) 61 and above (   )
4. What is your highest Educational Level?
   (i) Illiterate ( )
   (ii) Primary Education ( )
   (iii) Secondary Education ( )
   (iv) Tertiary (Polytechnic, University) ( )
   (v) Diploma level ( )
   (vi) Others (specify)___________________________________________

5. List names of gold mining companies operating in Tanzania
   _______________________________________________________________
   _______________________________________________________________
   _______________________________________________________________
   _______________________________________________________________
   _______________________________________________________________

Source of Revenue from Gold mining Sector
6. What sources of revenue are collected from Gold Mining Sector?
   (i) Royalties, Application fees, and Rent ( )
   (ii) Rent and Application ( )
   (iii) Royalties and Rent ( )
   (iv) None of the above ( )
   (v) Others (Specify)____________________________________________

7. Do you think all sources of revenue are exhausted?
   (i) Yes ( )
   (ii) No ( )
   (iii) I do not know ( )

8. Is the country benefiting from Gold mining sector?
   (i) Yes ( )
   (ii) No ( )
   (iii) I do not know ( )
9. What is the required contribution rate to the Gross Domestic Product?
   (i) 10% ( )
   (ii) 20% ( )
   (iii) 30% ( )
   (iv) I do not know ( )

10. Is the export of gold sand denies Government Revenue?
    (i) Yes ( )
    (ii) No ( )
    (iii) I do not know ( )

**Tax Administration on Revenue Collection**

11. What guide you to identify and compute Revenue from gold mining sector?
    (i) Income Tax Act ( )
    (ii) Mining Policy ( )
    (iii) Circulars ( )
    (iv) Others (specify) ________________________________

12. Is there any loophole by the mining companies to avoid paying taxes?
    (i) Yes ( )
    (ii) No ( )
    (iii) I do not know ( )

13. If yes above, what are they and how to curb them?
    (i) ________________________________
    (ii) ________________________________
    (iii) ________________________________

14. Is the Tanzania Revenue Authority cooperative in collecting Revenue?
    (i) Yes ( )
    (ii) No ( )
    (iii) I do not know ( )
15. Are the tax incentives abused by the mining companies?
   (i) Yes ( )
   (ii) No ( )
   (iii) I do not know ( )

How is the Revenue Collected and Controlled?

16. Is there any revenue collection Action Plan during the year?
   (i) Yes ( )
   (ii) No ( )
   (iii) I do not know ( )

17. If there is revenue Collection Action Plan, is it complied with?
   (i) Yes ( )
   (ii) No ( )
   (iii) I do not know ( )

18. How is the revenue collected?
   (i) Direct Bank Account (TIS) ( )
   (ii) Cash ( )
   (iii) Cheque ( )

19. Do you think all revenues are collected timely?
   (i) Yes ( )
   (ii) No ( )
   (iii) I do not know ( )

20. What companies are you collecting revenue from?
   (i) Small scale mining ( )
   (ii) Big mining company ( )
   (iii) Middle Mining company ( )
   (iv) All above ( )
   (v) Others (specify) ____________________________
21. Do the companies willing to pay tax?  
   (i) Yes 
   (ii) No 
   (iii) I do not know 

22. Are the informal sectors in gold mining paying tax?  
   (i) Yes 
   (ii) No 
   (iii) I do not know 

23. Please provide revenue records from gold mining sector for the last Five years. 

<table>
<thead>
<tr>
<th>Year</th>
<th>Local Mining companies</th>
<th>Foreign Mining Companies</th>
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</thead>
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<tr>
<td></td>
<td>TSHS</td>
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<tr>
<td>2007/08</td>
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<td></td>
<td></td>
</tr>
<tr>
<td>2011/12</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

24. Do you have a mineral policy guiding you in revenue collection?  
   (i) Yes 
   (ii) No 
   (iii) I do not know 

25. Do you think the mineral policy facilitate adequately in revenue collection?  
   (i) Yes 
   (ii) No 
   (iii) I do not know 

26. If the answer above is “NO” what would you recommend?  
   (i) 
   (ii) 

How the Mineral Policies and Laws contribute to revenue collection?

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27. Does the Mineral Policy attract private investment in Tanzania?
   (i) Yes ( )
   (ii) No ( )
   (iii) I do not know ( )

28. Do you think environment protection and management is exercised in the mining?
   (i) Yes ( )
   (ii) No ( )
   (iii) I do not know ( )

29. Do people surrounding gold mining benefiting?
   (i) Yes ( )
   (ii) No ( )
   (iii) I do not know ( )

30. If yes above, how?
   (i) ____________________________
   (ii) ____________________________

31. What challenges gold mining sector is facing?
   (i) ____________________________
   (ii) ____________________________

32. What are your recommendations towards increasing revenue collection?
   (i) ____________________________
   (ii) ____________________________

Thank you in Advance for your Cooperation