Narrative Report on Tanzania

PART 1: NARRATIVE REPORT

Overview

The United Republic of Tanzania scored a high secrecy score of 73. Surprisingly, even with these attractive secrecy policies, it is only recently that the jurisdiction has been brought under the spotlight.

Even so, with the change in leadership in 2015, Tanzania's development plan now strongly advocates for eradication of tax evasion and emphasises transparency. The mining industry has particularly found itself under scrutiny as the government seeks to overhaul the sector and increase its contribution to the GDP to 10% by 2025.

The new government and the change in the development agenda may lead to the transformation of the country's laws and it may also lower its secrecy score in future.

The development and framework

Tanzania is located in East Africa with a coastline on the Indian Ocean. The country is bordered by Kenya and Uganda to the North; Rwanda, Burundi and the Democratic Republic of Congo to the west; and Zambia, Malawi and Mozambique to the South and has a population of approximately 52 Million.[1]

Tanzania, formerly Tanganyika prior to its union with Zanzibar in 1964, attained political independence in 1961. Although originally the country attempted to carry on the capitalistic regime of its colonisers, by the mid-1960s, poverty and unemployment were still prevalent.[2]

In 1967, the economic and political landscape of Tanzania changed drastically with the implementation of the Arusha Declaration. The declaration established that Tanzania would hence forth follow the African Socialism Policy referred to as *Ujamaa*, a concept envisaged by Julius Nyerere. The capitalist, market-led economy that had been inherited at independence was shed and a new era of state owned, centrally planned and controlled economy was embraced.

Since 1988, the government of Tanzania has been implementing fairly comprehensive tax reforms as part of the wider economic reform program to strengthen growth and achieve sustained macroeconomic stability. The tax reforms have been geared at improving revenue administration, reducing tax rates, simplifying the tax structure, introducing Values Added Tax (VAT) and broadening the tax base. Despite these reforms, Tanzania still has a relatively low tax-to-GDP ratio especially in relation to other countries in the sub-Saharan region.[3]

The country's financial liberalisation began in 1992. The move has been characterized by mobilisation of financial resources, increased competition in the financial market and enhanced equality and efficiency in credit allocation.[4]

Tanzania has sustained relatively high economic growth over the last

Rank: 75

Chart 1 - How Secretive? 73 Secrecy Score

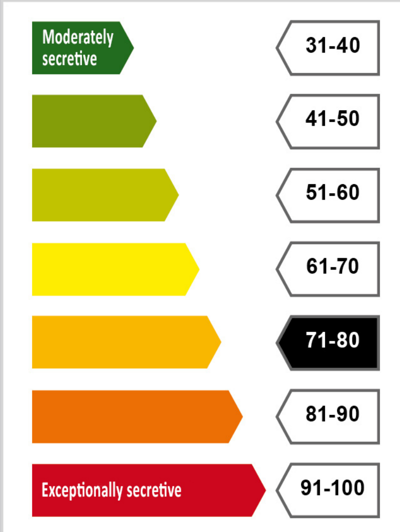
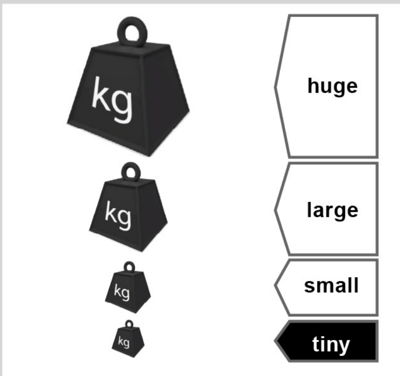


Chart 2 - How Big?



Tanzania accounts for less than 0,1 per cent of the global market for offshore financial services, making it a tiny player compared with other secrecy juridictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Full data on Tanzania is available here: www.financialsecrecyindex.com/database

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If you have any feedback or comments on this report, contact us at **info@taxjustice.net** decade averaging 6-7% a year.[5]

The country has seen a period of tremendous political change with the election of the fifth president John Magufuli in October 2015. The president has spearheaded an overhaul of the economic and political environment and especially the mining industry.

The government is targeting the mining industry as it seeks to double its contribution to the GDP of the country to 10% by 2025. There are fears that "[e] xpanded exploitation of Tanzania's massive natural resource reserves will strain the government's abilities to manage new-found wealth, avoid corruption".[6]

In March 2017, an audit was conducted of the London-listed Acacia Mining Plc which found that it had understated its taxes. The country further banned mineral exports and signed laws that enable the state to renegotiate contracts with mining and energy companies.[7] The increased number of audits has ignited conversations around transparency in the mining industry.

Financial investment

Tanzania is yet to sign the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MATM).[8] As of November 2017, the country was part of the list of developing countries that are yet to set a date for the first automatic exchange of information. Additionally, although the public may attain information, there are approval requirements necessary that may hinder access to the relevant information. The lack of agreements with regards to information exchange has made it a lucrative country for companies and individuals seeking offshore accounts.[9]

As a result of the liberalisation, the banking sector in Tanzania has boomed, particularly in recent years. The sector is characterised by a few large players and several small banks.[10] In 2017, the Tanzania's central bank, Bank of Tanzania (BOT), was forced to shut down one of the largest banks, FBME, after a US court ruled in favour of US Treasury's Financial Crimes Enforcement Network (against FBME) over "money laundering and facilitating the payment of thousands of dollars from a financier of the Lebanese Hezbollah Islamist militants".[11] There are also indications, following the liquidation of five banks by the BOT, that the sector may face more difficult times ahead.

The Tanzanian insurance sector is growing steadily, with 30 insurance companies and 112 insurance brokers currently active in the market. Additionally, the securities market emerged in the 1990s because of the government policy of liberalisation and currently includes 26 listed companies.[12]

Tanzania has entered into Double Taxation Agreements (DTAs) with the following countries: Canada, Denmark, Finland, India, Norway, South Africa, Sweden, Switzerland and Zambia, with further DTAs being negotiated.

The Anti-Money Laundering Act establishes the Financial Intelligence Unit, which is responsible for receiving, analysing and disseminating suspicious transaction reports and other information regarding potential money laundering and terrorist activities from financial and other institutions that are tasked as reporting persons under the Act.

However, even with the Anti-Money Laundering Act in place, the country lacks a comprehensive legal framework that would ensure disclosure of beneficial ownership of companies registered in the jurisdiction. The Companies Act does not provide for full disclosure of the ownership. Although the Constitution does require politicians and public leaders to declare their assets, this is not extended to the general public. The civilian may make an application to the relevant body to access the information. This in itself limits transparency in the systems in the country.[13]

The Tanzanian Government may support the campaign against money laundering, but it has maintained its position of securing the confidentiality of the information of the principal owner of the accounts, unless appropriate documents are presented to them. It has been noted that a number of Chinese and Indians have considered Tanzania as the best destination for their wealth.[14] Although the tax laws have always been favourable to investors, it is only recently that Tanzania has gained popularity as a secrecy jurisdiction. Even with laws in place, there are weaknesses in the actual implementation of due diligence checks by banks.[15]

It is important to note that in its Five-Year Development Plan (2016/17-2020/21), one of the key targets in terms of good governance is to prioritise tackling of mismanagement of public resources, corruption, poor service provision, tax evasion and bureaucratic snags. Yet Tanzania's withdrawal from the Open Government Partnership in 2017 seems to contradict efforts expressed on paper.[16]

Beneficial ownership in the extractives industry

Tanzania has a wealth of mineral resources. Minerals found in Tanzania include gold, coal, uranium, gypsum, iron ore, silver, copper, platinum, nickel, tin and gemstones such as diamonds, tanzanite, ruby, garnet, emerald, alexandrite and sapphire. Gold represents approximately 90% of the mining production in Tanzania.

The overhaul of the mining sector has involved banning mineral exports, audits of the largest mining companies in the country and changing of laws to allow the state to renegotiate contracts with mining and energy companies.[17]

The extractives industry has been marred by secrecy and corruption leading to scandals. Recently, Acacia Mining Plc, a London based company, was found to have been understating its tax liabilities in Tanzania. Committees formed in July of 2017 found widespread irregularities that led to contracts that were not beneficial to the country and resulted in a loss of government revenue.[18]

Prime Minister Kassim Majaliwa, at the London Anti-Corruption Summit on May 2016, pledged that beneficial ownership of companies active in the extractive industry will become publicly available.

Yet the legal framework with regards to beneficial ownership has been wanting. For the extractive industries (mining, oil and gas), companies are required to publish the names of their owners under the Tanzania Extractive Industries (Transparency and Accountability) Act 2015; however, no regulations are in place to operationalise this provision.[19] More generally the legislation is intended to ensure that payments made by the extractive companies are correctly computed and utilised for the benefit of Tanzanians.

The Tanzania Extractive Industry Transparency Initiative (TEITI) is a multi-stakeholder initiative that aims to increase transparency in the extractives industries in Tanzania. Through the TEITI, Tanzania has joined other countries in establishing the beneficial ownership of the extractive companies operating in its jurisdiction; disclosure of beneficial owners is mandatory for EITI implementing countries from 2020.[20] To date, the TEITI Committee has agreed on its roadmap to implement beneficial ownership disclosure, including establishing a materiality threshold of 1% stake for the disclosure of beneficial ownership and establishing a central registry to house information from extractive companies.

A report released by MM Attorneys in June 2017 concluded that the legal provisions available in Tanzania are not sufficient. There is therefore no legal requirement to faithfully declare the actual owners of a company. While the Business Registration and License Agency does require each company to declare who owns how many shares in a company, the Companies' registry does not have substantial information on the owners of the company and in most cases the ultimate beneficiary is not declared.

What next?

The so-called 'Magufuli effect' has split the country as have the decisions made regarding the mining sector. As the country moves towards its development goals, it would be prudent for the legal framework to be revisited, rewritten and implemented in view of the transparency agenda.

The banking secrecy laws in Tanzania have attracted individuals and corporations looking for secrecy jurisdictions. Given the significance of the mining sector to Tanzania's development strategy it is crucial that current steps to develop a modern financial sector are accompanied by a robust commitment to legal and financial transparency. Creating a public registry of beneficial ownership of companies must be regarded as an important first priority.

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Endnotes

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TANZANIA

PART 2: TANZANIA'S SECRECY SCORE

OWNERSHIP REGISTRATION

- 100% 1. Banking Secrecy
- 50% 2. Trust and Foundations Register
- 100% 3. Recorded Company Ownership
- 50% 4. Other Wealth Ownership
- 0% 5. Limited Partnership Transparency

LEGAL ENTITY TRANSPARENCY

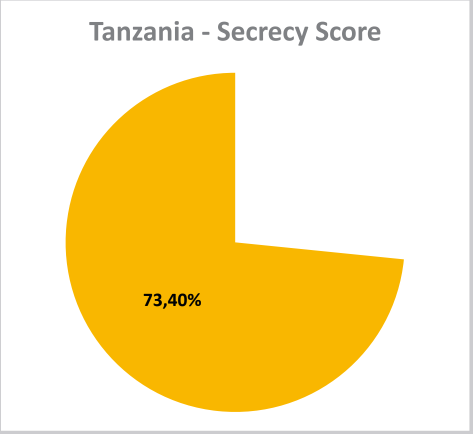
- 100% 6. Public Company Ownership
- 100% 7. Public Company Accounts
- 100% 8. Country-by-Country Reporting
- 100% 9. Corporate Tax Disclosure
- 100% 10. Legal Entity Identifier

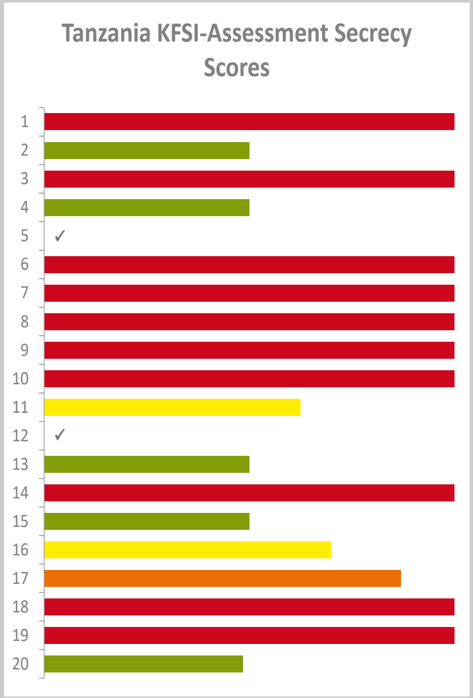
INTEGRITY OF TAX AND FINANCIAL REGULATION

- 63% 11. Tax Administration Capacity
- 0% 12. Consistent Personal Income Tax
- 50% 13. Avoids Promoting Tax Evasion
- 100% 14. Tax Court Secrecy
- 50% 15. Harmful Structures
- 70% 16. Public Statistics

INTERNATIONAL STANDARDS AND COOPERATION

- 87% 17. Anti-Money Laundering
- 100% 18. Automatic Information Exchange
- 100% 19. Bilateral Treaties
- 49% 20. International Legal Cooperation





Notes and Sources

The ranking is based on a combination of its secrecy score and scale weighting (click here to see our full methodology).

The secrecy score of 73 per cent has been computed as the average score of 20 Key Financial Secrecy Indicators (KFSI), listed on the left. Each KFSI is explained in more detail by clicking on the name of the indicators.

A grey tick indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This paper draws on data sources including regulatory reports, legislation, regulation and news available as of 30.09.2017.

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To find out more about the Financial Secrecy Index, please visit www.financialsecrecyindex.com.