Narrative Report on Tanzania

PART 1: NARRATIVE REPORT

Tanzania is ranked 98th on the 2020 Financial Secrecy Index, based on a secrecy score of 71 combined with a tiny scale weighting of 0.002 per cent of the global market in offshore financial services.

In the two years since the 2018 edition of the Financial Secrecy Index, the Tanzanian government has continued to focus on attracting foreign investors in a drive to increase the country's revenues, to address corruption, tax evasion and dubious contracts, and to reduce inefficiency in the delivery of public services.[1]

To go back a few years:

In 1967, six years after independence, the economic and political landscape of Tanzania changed drastically with the implementation of the Arusha Declaration. The declaration established that Tanzania would henceforth 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 abandoned, and a new era began based on a state-owned, centrally planned and controlled economy.

Since 1988, the government of Tanzania has been implementing fairly comprehensive tax reforms as part of the wider economic reform programme 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 Value 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.[2]

The country's financial liberalisation began in 1992. The move has been characterised by mobilisation of financial resources, increased competition in the financial market and enhanced equality and efficiency in credit allocation.[3]

Tanzania has sustained relatively high economic growth over the last decade, averaging 6-7% a year.[4] In the first quarter of 2019, the growth recorded as compared to the corresponding quarter in 2018 was 6.6% as has been the average recorded growth.[5]

President John Magufuli's, government continues to make changes in the economic and political environment in Tanzania. His presidency has faced criticism both locally and internationally as a result of some his controversial decisions such as his mega-projects which some believe have been implemented without careful planning. One of his most controversial projects is the Rufiji Hydroelectric project which has elicited doubt on its commercial viability. Private investment also seems to be affected as investors are getting scared off by limits on foreign ownership, a ban on international arbitration to settle contract disputes, and delays in payment of VAT refunds.[6]

Nevertheless, there seems to be some form of progress in respect to the stand-off between the government and mining companies. Acacia

Rank: 98 of 133

How Secretive? 71

Moderately secretive	0 to <25
	25 to <50
	50 to <75
Exceptionally secretive	75 to 100

How big? <0.01%

huge

large

small

tiny

huge: >5% large: >1% to 5% small: >0.1% to 1% tiny <0.1%

Tanzania accounts for 0.002 per cent of the global market for offshore financial services. This makes it a tiny player compared to other secrecy jurisdictions.

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

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

To find out more about the Financial Secrecy Index, please visit

http://www.financialsecrecyindex.com.

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Tanzania

Mining said that the Tanzanian Government had allowed it to resume gold exports from its largest mine in the country. The news came after Acacia's board recommended a buyout offer for the miner by its majority shareholder Barrick Gold, the world's second-largest gold miner. Barrick has said that the takeover deal is needed to resolve Acacia's dispute with the Tanzanian government, which have constrained the company's ability to export gold for over two years.[7]

The increased number of audits has ignited conversations around transparency in the mining industry with some quarters demanding that the mining companies are listed on the local stock exchange to give Tanzanians an opportunity to share in their profits.[8]

Financial investment

Tanzania is yet to sign the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MATM).[9] As of 25 April 2019, the country was part of the list of developing countries that are yet to set a date for the first automatic exchange of information.[10]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.[11]

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.[12] In 2017, the Tanzania's central bank, Bank of Tanzania, 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".[13] Although the Tanzanian banks faced instability in 2016 and 2017, observers have noted that the sector has started to stabilise. This was after a large number of banks were forced to set aside vast sums of money for impairment losses on bad loans as a result of the downturn in the real estate sector.[14]

The IMF has noted that the banking regulatory authorities have strengthened financial prudential regulations, put in place elements of a framework for monitoring systemic risk and macroprudential policy responses and initiated a transition of the monetary framework towards an interest-rate based operating target. The Executive Board however noted that despite favourable macroeconomic conditions, financial stability challenges are significant, with deteriorating asset quality, falling credit growth and liquidity pressures. The Executive recommended that continued macroeconomic stability, an improved business environment, better execution of fiscal policy and resolution of government payment arrears would help to address the financial sector's vulnerabilities and risks.[15]

The Tanzanian insurance sector is growing steadily. During the first quarter of 2019, 31 insurance companies and 89 insurance brokers, 491 insurance agents and 45 loss assessors and adjusters were licensed to transact business.[16] The Dar es Salaam Stock Exchange has evolved significantly since its establishment in 1996 and now includes 28 listed companies.[17]

Tanzania has entered into double taxation agreements with Canada, Denmark, Finland, India, Norway, South Africa, Sweden, Switzerland and Zambia, with further double taxation agreements being negotiated.[18]

The Anti-Money Laundering Act established 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.

On 24 May 2019, the Anti-Money Laundering (Electronic Fund Transfer and Cash Transaction Reporting) Regulations 2019 were published. These regulations introduced mandatory reporting formats with more details on the remitter and receiver of funds and strict reporting guidelines for lawyers and accountants. Reporting persons are now required to report to the Financial Intelligence Unit all transactions over US$10,000 for currency transactions and US$1,000 (for electronic transfers), while gaming activity operators are required to report cash transactions in respect of cash received from the customer and cash disbursed to the customer in the course of the specific transactions highlighted in the regulations.[19]

The recent fines imposed on five banks amounting to US$800,000 for breach of anti-money laundering rules are an indicator of increased oversight over financial institutions.[20]

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 Indian nationals have considered Tanzania as the best destination for their wealth.[21] Even with laws in place, there are weaknesses in the actual implementation of due diligence checks by banks.[22] Various organisations advise customers to open accounts in Tanzania as the country does not have any information exchange agreements, which reduces the amount of information that can be shared with the customer's resident country.[23]

Although Tanzania does have laws requiring the disclosure of certain information by companies, these statutes are not harmonised.[24] 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 ownership. Although the Constitution does require politicians and public leaders to declare their assets, this is not extended to the general public. An individual can make an application to the relevant body to access the information. But this in itself limits transparency in Tanzania.[25] It is important to note that in its Five-Year Development Plan (2016/17-2020/21), one of Tanzania's key targets in terms of good governance is to prioritise tackling the mismanagement of public resources, corruption, poor service provision, tax evasion and bureaucratic snags. However, Tanzania's withdrawal from the Open Government Partnership in 2017 seems to contradict these ambitions.[26]

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 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.[27]

In recent years there has been a standoff between the government and mining companies. The government has, however, shifted its focus to multinational firms. This focus on multinational firms has been well received by artisanal miners, as the tax burden imposed on them is set to be reduced.[28] This is a reflection of the continued conflict of interest between large-scale mining and artisanal and small-scale mining. There has been a noticeable shift towards artisanal and small-scale mining over the last couple of years, which has been linked to the re-emergence of resource nationalism in Tanzania.[29]

The extractives industry has been marred by secrecy and corruption, leading to a number of scandals. In 2017, 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.[30]

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

Although Section 16(1)(b) of the Tanzania Extractive Industries (Transparency and Accountability) Act 2015 provides that the shareholders of the extractive industry companies must be declared, the impact of this is limited because it does not require companies to provide information on the ultimate natural person who has beneficial ownership. The Act also lacks the definition of beneficial ownership and information that should be considered in the disclosure of the beneficial owner.[31]

There has been some improvement with the publication of the Tanzania Extractive Industries (Transparency and Accountability) Regulations 2019, which under regulation 12 provide for information required for beneficial ownership disclosure and place an obligation on companies to attest the beneficial ownership declaration forms and supporting document signed by the companies.[32]

The Tanzania Extractive Industry Transparency Initiative (EITI) is a multi-stakeholder initiative that aims to increase transparency in the extractives industries in Tanzania. Through EITI, 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.[33] To date, the Tanzania Extractive Industry Transparency Initiative 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.

Tanzania finds itself in a curious position as it continues to try to regulate the extractives industry while balancing development. Lack of harmonised and detailed criteria for declaration of beneficial ownership is a loophole which may continue to be misused by companies in a bid to evade taxes, and encourages illicit financial flows and corruption.

What next?

The 'Magufuli effect' continues to divide the country, as some applaud the government for fighting for the people especially with the continued push towards "economic nationalism", while others see some of the actions taken as jeopardising citizen's rights, particularly the right to free expression.

As the government continues to try to increase tax collection and reduce tax evasion, it must first deal with the loopholes within its mining laws, specifically the fine tuning of laws surrounding beneficial ownership requirements. Creating a public registry of beneficial ownership of companies must be regarded as an important first priority.

Banking secrecy laws in Tanzania continue to attract individuals and corporations looking for secrecy jurisdictions. It is crucial that current steps to develop a modern financial sector in Tanzania are accompanied by a robust commitment to legal and financial transparency. The imposition of fines on banks with lax anti-money laundering rules is a step in the right direction. However, entering into automatic exchange of information arrangements with various countries will reduce the use of Tanzania as a secrecy jurisdiction.

With thanks to Ruth Wamuyu, Tax Advisor

Endnotes

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Tanzania

PART 2: 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
- 98 — 9. Corporate Tax Disclosure
- 100 — 10. Legal Entity Identifier

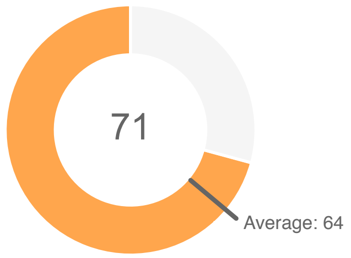
INTEGRITY OF TAX AND FINANCIAL REGULATION

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

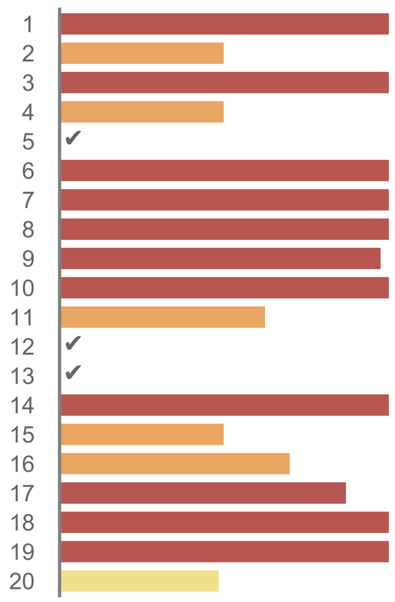
INTERNATIONAL STANDARDS AND COOPERATION

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

Secrecy Score



Key Financial Secrecy Indicators



Notes and Sources

The FSI ranking is based on a combination of a country's secrecy score and global scale weighting (click here to see our full methodology).

The secrecy score is calculated as an arithmetic average of the 20 Key Financial Secrecy Indicators (KFSI), listed on the right. Each indicator is explained in more detail in the links accessible by clicking on the name of the KFSI.

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

This report draws on data sources that include regulatory reports, legislation, regulation and news available as of 30 September 2019 (or later in some cases).

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

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