



**Scoping Study of the  
Forestry Sector  
for the purpose of including the industry in  
Revenue Disclosure through the  
Tanzania Extractive Industries Transparency  
Initiative**

**FINAL REPORT**

**Green Advocates International, Inc.**

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# Table of Contents

<b>TABLE OF CONTENTS</b>	<b>2</b>
<b>ACKNOWLEDGEMENTS</b>	<b>4</b>
<b>LIST OF ACRONYMS</b>	<b>5</b>
<b>EXECUTIVE SUMMARY</b>	<b>8</b>
<b>2.1 FORESTRY REVENUES</b>	<b>10</b>
<b>2.2 DIRECT TAXES</b>	<b>10</b>
<b>2.2.1 INDIRECT TAXES</b>	<b>10</b>
<b>1. INTRODUCTION</b>	<b>15</b>
<hr/>	
<b>2. SETTING THE STAGE: UNDERSTANDING THE FORESTRY SECTOR IN TANZANIA</b>	<b>17</b>
<hr/>	
<b>2.1 OVERVIEW OF THE FORESTRY SECTOR IN TANZANIA</b>	<b>17</b>
<b>2.2 TYPES OF PAYMENTS TO GOVERNMENT</b>	<b>26</b>
2.2.1 FORESTRY REVENUES	26
SOURCES OF REVENUE	26
2.2.1.1 Natural forests	26
(a) <b>Sawn logs</b>	26
(b) <b>Poles</b>	27
(c) <b>Firewood</b>	28
(d) <b>Charcoal</b>	28
2.2.1.2 Revenue from plantation forests	28
2.2.1.3 Revenue from export of forest products	29
2.2.1.4 Revenue from non wood Forest products	30
2.2.1.5 Revenue from forest services	30
2.2.1.6 Levies	30
2.2.1.7 Certificate of Registration	30
2.2.1.8 Licences for Harvesting	31
2.2.1.9 Transit Pass	31
2.2.1.10 Logging and Miscellaneous Account (LMDA)	31
2.2.1.11 Tanzania Forestry Fund (TaFF)	31
<b>2.2.1.12 Payments under Participatory Forest Management (PFM)</b>	<b>32</b>
2.2.2 DIRECT TAXES	33
2.2.2.1 Indirect Taxes	34
<b>2.2.2.2 Value Added Tax (VAT)</b>	<b>34</b>
<b>2.2.2.3 Excise duty</b>	<b>35</b>
2.2.2.4 Trade Taxes	35
<b>2.3 REVENUE COLLECTING GOVERNMENT AGENCIES</b>	<b>38</b>
CURRENT REVENUE COLLECTION SYSTEM	38
Procedures for setting and collecting royalties, fees and levies	38

<b>2.4 PAYMENT FLOWS</b>	<b>46</b>
<b>2.5 KEY CHALLENGES OF REVENUE COLLECTION</b>	<b>47</b>
Illegal shipping of forest products	49
<b>2.6 FOREST COMPANIES OPERATING IN TANZANIA</b>	<b>50</b>
<b>2.7 KEY CIVIL SOCIETY ORGANIZATIONS IN THE SECTOR</b>	<b>55</b>
<b>2.7.1 TANZANIA NATURAL RESOURCES FORUM (TNR)</b>	<b>55</b>
<b>2.7.2 TANZANIA FOREST CONSERVATION GROUP (TFCG) AND MJUMITA</b>	<b>55</b>
<b>2.7.3 MPINGO CONSERVATION DEVELOPMENT INITIATIVE (MCDI)</b>	<b>56</b>
<b>2.7.4 TRAFFIC</b>	<b>57</b>
<b><u>3. INTEGRATING THE FORESTRY SECTOR INTO EITI IMPLEMENTATION IN TANZANIA</u></b>	<b><u>58</u></b>
<b>3.1 RATIONALE FOR INTEGRATING FORESTRY</b>	<b>58</b>
<b>3.2 STAKEHOLDERS' VIEWS</b>	<b>58</b>
<b>3.3 EXPANDING THE TEITI MULTI-STAKEHOLDER GROUP</b>	<b>59</b>
<b>3.4 INCORPORATING GOVERNMENT AGENCIES</b>	<b>59</b>
<b>3.5 INCORPORATING FORESTRY COMPANIES</b>	<b>60</b>
<b>3.6 INCORPORATING CIVIL SOCIETY</b>	<b>60</b>
<b>3.7 PREPARING THE EITI REPORT ON FORESTRY</b>	<b>60</b>
<b>3.8 REPORTING TEMPLATE</b>	<b>61</b>
<b>3.9 MEETING EITI REQUIREMENTS</b>	<b>61</b>
<b><u>4. CONCLUSION AND RECOMMENDATIONS</u></b>	<b><u>62</u></b>
<b>ANNEX 1: FOREST PRODUCTS EXPORTING COMPANIES (2010/2011/2012)</b>	<b>64</b>
<b>ANNEX 2: FOREST COMPANIES FILING TRA RETURNS 2006 - 2013</b>	<b><u>69</u></b>
<b><u>ANNEX 3: REPORTING TEMPLATE</u></b>	<b><u>70</u></b>
<b>ANNEX 4: MEETING THE EITI STANDARD</b>	<b>73</b>
<b>ANNEX 5 LIST OF PERSONS MET</b>	<b>79</b>
<b>ANNEX 6 LIST OF REFERENCES</b>	<b>82</b>

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## List of Acronyms

EITI	Extractive Industries Transparency Initiative
AHP	Annual Harvesting Plan
BRELA	Business Registration and Licensing Agency
c.i.f	Cost, Insurance and Freight
DBH	Diameter at Breast Height
DFID	UK Department for International Development
DFM	District Forest Manager
DFoB	Director of the Forestry and Beekeeping Division
DFO	District Forest Officer
DFP	Dealers and Traders of Forest Produce
EAWLS	East African Wildlife Society
EFDs	Electronic Fiscal Devices
EU	European Union
FAO	Food and Agriculture Organization of the United Nations
FMP	Forest Management Plan
FSC	Forest Stewardship Council
GEF	Global Environment facility
GN	Government Notice
IUCN	International Union for the Conservation of Nature
LMDA	Logging and Miscellaneous Development Administration
MCDI	Mpingo Conservation and Development Initiative

MJUMITA	Mtandao wa Jamii ya Misitu ya Tanzania - Community Forestry Network
MNRT	Ministry of natural Resources and Tourism
MPM	Mufindi Paper Mill
NAFOBEDA	National Forestry and Beekeeping Database
NAFORMA	National Forest Monitoring and Assessment
NAO	National Audit Office
NBS	National Bureau of Statistics
NFP	National Forest Programme
PAYE	Pay-As-You-Earn
PCCB	Prevention and Combating Corruption Bureau
PFM	Participatory Forest Management
PM	Plantation Manager
REDD	Reduced Emissions from Deforestation and forest Degradation
SDL	Skills and Development Levy
SMEs	Small and Medium sized Enterprises
TaFF	Tanzania Forest Fund
TEITI	Tanzania Extractive Industries Initiative
TFCG	Tanzania Forest Conservation Group
TFS	Tanzania Forest Services Agency
TFWG	Tanzania Forestry Working Group
TICTS	Tanzania International Container Terminal Services Limited
TNRF	Tanzania Natural Resources Forum
TP	Transit Permit

TPA	Tanzania Ports Authority
TRA	Tanzania Revenue Authority
TZS	Tanzania Shilings
UAE	United Arab Emirates
UNDP	United Nations Development Programme
USD	United States Dollar
WWF	World Wide Fund for Nature
ZFO	Zonal Forest Officer

# Executive Summary

## 1. Introduction

Since the early 1990s, Tanzania's extractive industry, in the mineral and gas sectors, has experienced a boom. Despite the boom, there has been public concern on the level of revenues that the government collects from extractive companies and the management of natural resources. In February 2009, Tanzania joined the Extractive Industries Transparency Initiative (EITI) to improve transparency and accountability in the extractive sector. The Tanzania Extractive Industries Transparency Initiative (TEITI), the local EITI Chapter, is led by a 16 member Multi-Stakeholder Group consisting of an independent chairperson and 5 members each from the government, extractive companies and civil society organizations.

The TEITI Multi-stakeholder Group decided to look into the revenues from the forestry sector. Forestry is covered within the EITI framework in countries such as Liberia. In this context, the Multi-stakeholder Group authorized the preparation of a scoping study on the forestry sector in Tanzania. The scoping study is meant to assist the TEITI Multi-stakeholder Group in assessing the possibility of including forestry in EITI implementation. The scoping study, which is put together by a team of consultants from Green Advocates International (Liberia), is prepared following meetings in Dar es Salaam with government officials from the Ministry of Natural Resources and Tourism (MNRT), the Tanzania Forestry Service (TFS), the Tanzania Revenue Agency (TRA) and the Tanzania Ports Authority. Field work was carried out in Lindi, Mtwara and Iringa Regions. In the field, meetings were held with TFS, district officials responsible for revenue collection, management of Sao Hill plantation, dealers and representatives of Green Resources Limited and Mufindi Paper Mill.

## 2. Setting the Stage: Understanding the Forestry Sector in Tanzania

### 1. Overview of the Forestry Sector in Tanzania

*Importance to the overall economy,*

**A recent TRA study that focussed on value chain analysis found that forestry's contribution to GDP of 4%:** A 2012 study commissioned by the Tanzania Revenue Authority found that Industry Output Estimates for the main forestry sectors could be used to calculate a reasonable estimate of contribution to GDP. Forestry's contribution to GDP was estimated to be 4%, a level greater than the contributions from Mining and Quarrying (3.3%). **The forestry sector is larger in value than the entire export crops sector in Tanzania, accounting for USD 751 million in 2012:** The value of forestry activities in Tanzania is greater than the value of all export crops combined, (USD 751 million for forestry as compared to USD 730 million for all export crops combined). In addition to the relative size of the forestry sector, prices in forestry have been more stable than export crops. **Formal employment in forestry is in the 10,000s, 4,250 of whom are employed as forest officers:** At least 4,250 persons were employed as forest officers



by the government in 2005, of which 1,825 were employed directly by the ministry itself. A survey conducted by MNRT in 2009 found that of 236 sawmills, that were proposed for registration throughout the country, provided employment to 3,296 persons.

### *Trade flows*

**Charcoal is a growing forestry industry due to increasing urbanization, it is traded through a well developed value chain worth USD 600 million annually:** Biomass energy accounted for 95% of Tanzania's total wood consumption in 2001, of which 13.4 million m<sup>3</sup> was consumed in urban areas as charcoal. **Tanzania's natural forest hardwoods are relatively valuable, worth an estimated USD 42 million annually:** The total harvesting of hardwoods from natural forests for timber was estimated at 170,000 m<sup>3</sup>. Prices for wood from Tanzania have been on the increase compared with other African countries. Average prices rose from \$250 per m<sup>3</sup> in 2002/3 to \$330 in 2004/5. **The softwood industry is dominated by Sao Hill Plantation, where production declined by 43% over the last 5 years:** The Government-owned Sao Hill Forest produced one million m<sup>3</sup> of timber in 2011, 80% of all plantation harvesting. The largest share, some 650,000m<sup>3</sup>, goes to small and medium size saw millers. The main industries based on plantations are sawmilling, paper and telephone and building poles. Revenues of \$130 million annually were generated from the softwood timber trade. A reduced supply of softwood timber has resulted in an increased unit price for this product in Tanzania.

### *Export destinations*

**TFS data shows exports have remained stagnant for the last 4 years, although the value of forest exports has increased:** The number of permits issued, the volume of products exported and the export fees collected have remained stable over the 4 year period for which data was obtained. **TRA data indicates that India, Kenya and China are the most important export markets, in contrast to TFS data:** The TRA data set shows the dominant position that exports to India represent, accounting for almost half of the value. Kenya, at 22% of value, is the second most important export market for Tanzanian. **Shipping data shows an increase in volume over the last 4 years, this contrasts with TFS and TRA data:** Shipping data indicates a steady increase in containers carrying sawn timber for export for the period 2010 - 2014. If all of the shipped containers are full of sawn timber, then the amount of timber shipped would be in excess of the 24,000m<sup>3</sup>/year that were issued permits by TFS.

## **2. Types of Payments to Government (e.g., fees, royalties, taxes payable at different levels both local and central government and legal provisions for collecting revenues)**

### **2.1 Forestry Revenues**

Government forestry revenue comes from natural forest, plantations, exports and services: **Most TFS revenue is collected from royalties, revenues from fines and confiscations generate a low 2%:** The largest revenues are collected from royalty payments for harvesting. TaFF charges generated an additional 19% of revenues. LMDA, collected from plantations, contributed to 5% of revenue. Fines and penalties levied contributed only 2%. Considering the high perceived levels of illegality it is surprising that compounding fees contributed so little.

### **2.2 Direct Taxes**

In contrast to the royalties and fees listed above, which are provided for under the Forest Act 2002, the following direct taxes are governed by the Income Tax Act 2004 and are administered by the Tanzania Revenue Authority:

- Corporate income tax
- Individual income tax (personal income tax and presumptive income tax)
- Pay-as you-earn (PAYE)
- Withholding tax
- Skill development levy (SDL)

#### **2.2.1 Indirect Taxes**

The major indirect tax categories are Value Added Tax (VAT) and excise duty. These taxes are levied under the Value Added Tax Act, 1997.

#### **2.2.2 Value Added Tax (VAT)**

**Businesses with turnover greater than TZS 40 million register for VAT but TRA does not have the capacity to monitor VAT registrations:** Businesses with turnover TZS 40 million or greater are legally required to register for VAT. TRA does not check which businesses have reached the VAT threshold very closely. **Payroll taxes (PAYE and SDL) account for 61% of all TRA revenue from forestry enterprises. VAT provides only 2%:** PAYE accounts for 42% of the TZS 3.68 billion collected from forestry enterprises by TRA. PAYE was followed by SDL and Corporation tax at 19% and 18% respectively. SDL is calculated from the number of employees.

## **3. Revenue Collecting Government Agencies (including at the district level): Trends in Revenue Collection over the Past Five Years (data)**

**Royalty rates are determined administratively, not based on forest markets:** Though royalty rates have been updated, a concise model for their determination has never been developed. Stakeholders claim there is an urgent need for royalty rates based on “economic surplus” models, which enable efficient markets and maximize revenue. Royalty rates have been determined arbitrarily. **Revenues collected by TFS have increased by 40% over the last 4 years, by 25% at Sao Hill:** There has been an upward

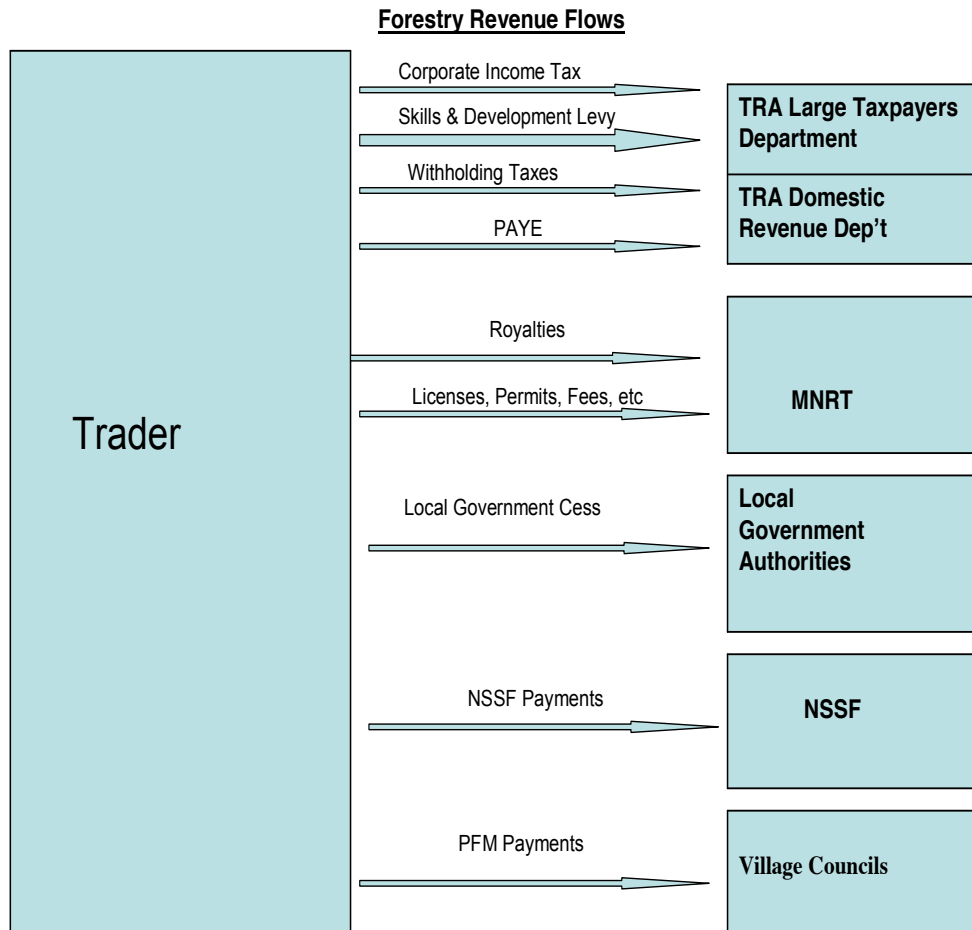
trend in revenue collection over the last 4 years. The restructuring of the forestry administration has led to improved collection. Revenues have increased by 40%, reaching TZS 70 billion by 2014. The contribution of Sao Hill has remained stable during the same period.

**80% of wood harvested is used to make charcoal, 90% of royalties are realized from timber, illustrates the “skewed” royalty setting system:** Charcoal royalties in the Southern Zone generate 10% of revenues but the volume of charcoal that generated these revenues represents 80% of trees harvested. This illustrates a failure in the royalty system. **Revenues collected from Sao Hill have increased for 4 years, harvested volumes have decreased by 40%:** In contrast to the Southern Zone, revenue collection trend in Sao Hill was shown to result from increases in royalty fees rather than increased harvesting. TFS has responded to the mismatch between supply and demand by increasing the royalty rates. Unfortunately, the number of permits continues to be more than the plantation can sustain resulting in a parallel market for permits.

**Revenues collected by TRA have increased over the last 7 years, but, only TZS 3.6 billion was collected in 2014:** Revenues collected by TRA have registered a 6 fold increase during a 4 year period. Revenue collected by TRA in 2013/2014 amounted to TZS 3.67 billion, which was collected from just 4 companies.

**4. Payment Flows (including payments and transfers to/from local and district levels of government)** Royalties from forests is TZS 70 billion/year. At the same time, revenues from taxes levied on salaries, profits and VAT has remained at levels not exceeding TZS 3.6 billion/year. Forest trade and revenue reflects an industry focussed on raw materials but offers little processing, value added or employment creation.

Figure: Payment flows from taxes and non-tax revenues in Tanzania’s forestry sector



**5. Key challenges of Revenue Collection**

A number of studies have highlighted problems of revenue collection in the forestry sector. In comparing performance to goals the following issues arise:

1. The licensing system for natural forests is not effectively controlling use of forest resources, the resource base is becoming degraded;
2. The unsustainable use referred to above is largely illegal and is exacerbated by corruption;
3. Controlling natural forests will always be challenging; natural forests tend to be large, remote, dispersed, and poorly served by public infrastructure;

4. Market and institutional arrangements in forestry are characterized by multiple players (central government, local government, a poorly developed commercial sector, and communities), the crowded playing field complicates resource management.

### **6. Forest Companies Operating in Tanzania**

Most forest enterprises in Tanzania are small and unregistered. Many enterprises are operating either at the harvesting level or in the burning, and retail of charcoal. Any forest trader is required to register their business at the Local Government. As a result, obtaining lists of registered forest companies requires a great deal of effort in order to collect this information. There are 16 forestry companies that have filed returns greater than TZS 250 million, as identified by TRA. Upon analyzing their records TRA found that only 4 companies have paid any taxes in the period 2007 - 2014.

## **3. Integrating the Forestry Sector into EITI Implementation in Tanzania**

### **Rationale for Integrating Forestry**

Forestry is a key element of the Tanzanian economy, contributing to 4% of GDP and at least 3 million person years of employment. It remains fragmented and a subsistence level activity. Forestry's potential for employment, revenue generation and export earnings could be improved if it was better managed.

### **Stakeholders' Views**

Stakeholders supported the inclusion of forestry in EITI reporting. TFS expressed interest in joining the TEITI Multi-stakeholder Group. However, it highlighted the difficulties of collecting payment data given the absence of a centralized database. It suggested focusing on large companies and gradually incorporating saw millers. Sawmill owners were concerned by the unregulated pitsawyers operating in the industry. Many traders requested a more transparent process of price setting. Civil society was in favour of including forestry in EITI. The EITI offers an opportunity to engage policy dialogue on the governance of the sector.

### **Expanding the TEITI Multi-Stakeholder Group**

Recommended is the incorporation of relevant government agencies, forestry companies and civil society into the existing TEITI Multi-stakeholder Group.

### **Incorporating Government Agencies**

Recommended is that the Ministry of Energy and Minerals invite TFS to join the TEITI Multi-stakeholder Group.

### **Incorporating Forestry Companies**

TEITI and TFS convene a meeting for key companies. The purpose of the meeting would be to select one company to represent forestry companies in the Multi-stakeholder Group.

**Preparing the EITI Report on Forestry**

Preparing an EITI report covering the entire forestry sector is daunting. It is recommended that the EITI report start with a gradual approach, covering large companies and exporters and later including smaller players.

**Reporting Template**

A stand-alone reporting template for EITI on the forestry sector is recommended. Given the unique nature of forestry, it is not recommended to combine reporting templates with those of oil, gas and mining.

**Meeting EITI Requirements**

The forestry sector in Tanzania is fragmented. As such, it does not meet a number of EITI requirements as a sector. For instance, it does not have a centralized database where all licenses can be accessed. However, the existing TEITI process can compensate for some of the shortcomings.

# 1. Introduction

Since the early 1990s, Tanzania's extractive industry, both in the mineral and gas sectors, has experienced a boom. Despite the boom, there has been public concern on the level of revenues that the Tanzanian government collects from the extractive companies and the overall management of natural resources. In February 2009, Tanzania joined the Extractive Industries Transparency Initiative (EITI) to improve transparency and accountability in the extractive sector. In December 2012, Tanzania became compliant with the EITI's transparency standards.

The Tanzania Extractive Industries Transparency Initiative (TEITI), the local EITI Chapter, is led by a sixteen-member Multi-Stakeholder Group consisting of an independent chairperson and five members each from the government, extractive companies and civil society organizations. The TEITI Multi-stakeholder Group has been vigorously pushing for the implementation and institutionalization of the EITI within Tanzania. To date, it published four EITI reports reconciling payments made to the government by oil, gas and mining companies. The latest EITI report covers payments made to the government during the 2011/2012 fiscal year.

Since the start of the EITI implementation in Tanzania, revenues collected from oil, gas and mining companies have been steadily increasing. The first EITI report showed the government collected US\$102 million in 2008/2009 fiscal year. In the second EITI report, government collected US\$ 310 million in 2009/2010. The third EITI report showed that the government revenue was US \$330 million in 2010/2011. In the fourth EITI report, the government collected US \$ 468 million in 2011/2012. Revenues are expected to increase sharply in the next six to ten years, given the significant gas discoveries in Tanzania.

The TEITI Multi-stakeholder Group decided to look into the revenues collected from forestry sector in Tanzania. Forestry is covered within the EITI framework in countries such as Liberia. In this context, the Multi-stakeholder Group authorized the preparation of a scoping study on the forestry sector in Tanzania. The scoping study is meant to assist the TEITI Multi-stakeholder Group in assessing the possibility of including forestry in EITI implementation in Tanzania.

The scoping study, which is put together by a team of consultants from Green Advocates International (Liberia), is prepared following meetings in Dar es Salaam with government officials from the Ministry of Natural Resources and Tourism (MNRT), the Tanzania Forestry Service (TFS), the Tanzania Revenue Agency (TRA) and the Tanzania Ports Authority. Several efforts to meet with the Prevention and Combating of Corruption Bureau (PCCB) have failed due to a lack of cooperation by agency officials. In Dar es Salaam, meetings were also held with civil society organizations active in the forestry sector in Tanzania.

Field work was carried out in Lindi, Mtwara and Iringa regions. In the field, meetings were held with TFS and several district officials responsible for revenue collection from the forestry sector. Meetings were also held with the management of Sao Hill plantation, dealers as well as representatives of Green Resources Limited and Mufindi Paper Mill.

The study is divided into two sections. Section one describes the current state of the forestry sector in Tanzania, with a focus on the types and volume of revenues collected by the government. Section two explores ways of incorporating forestry into EITI reporting in Tanzania. The study strongly recommends the inclusion of forestry in EITI implementation in Tanzania.



## 2. Setting the Stage: Understanding the Forestry Sector in Tanzania

### 2.1 Overview of the Forestry Sector in Tanzania

*Importance to the overall economy,*

**The National Accounts calculate that forestry and hunting contribute 2.5% to GDP:**

The literature lists a range of different figures when referring to the contribution of the forestry sector to the Tanzanian economy. It appears that the different figures depend on the way in which the sector is defined. One example are the National Accounts of Tanzania Mainland from 2001 – 2011 in which forestry and hunting are calculated together and where forestry covers the production of logs, charcoal, fuel wood, honey and beeswax. The National Accounts found that the combined forestry and hunting contribution to GDP over the decade remained constant at 2.5 - 2.4 (estimated at TZS 936.4 million in 2011) whereas other agricultural and natural resource sectors declined on average over the same period (see Table 1).

Table 1: Share of GDP at Current Prices by Economic Activity

<b>Economic Activity</b>	<b>2001</b>	<b>2010</b>
Crops	21.4	17.8
Livestock	5.0	3.8
Forestry and Hunting	2.5	2.4
Fishing	1.7	1.4

NBS 2011<sup>1</sup>

**MNRT defines the forestry sector more broadly than the Ministry of Finance and therefore calculates forestry's contribution to GDP at 20%:**

On the other hand the Ministry of Natural Resources and Tourism estimated the annual value of forest goods and services at USD 2.2 billion, equivalent to 20.1% of GDP based on 2006 prices<sup>2</sup>. The higher MNRT estimate was determined by considering that forests in addition to supplying a variety of wood and non wood products, they also conserve soils, mitigate climate through sequestering carbon, are a source of water for domestic and industrial use, irrigation agriculture and power generation and possess aesthetic, recreational, cultural, spiritual, medicinal and scientific value. Consideration was also made that forests have high biodiversity value and contribute to the tourism sector by offering habitat to wildlife and thereby contribute to poverty reduction. The ministry further

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<sup>1</sup> 2011. National Bureau of Statistics, Ministry of Finance. National Accounts of Tanzania Mainland 2001 - 2011

<sup>2</sup> 2009. Ministry of Natural Resources and Tourism, Forestry and Beekeeping Division. Participatory Forest Management in Tanzania (1993 – 2009). Lessons learned and experiences to date

maintained that the majority of rural communities and a large proportion of urban dwellers depend heavily on bio energy, accounting for about 90% of the total energy consumption in the country.

**A recent TRA study that focussed on value chain analysis found that forestry’s contribution to GDP of 4%:** A 2012 study commissioned by the Tanzania Revenue Authority found that although available data is too incomplete to present a formal figure of the forestry sector GDP; instead Industry Output Estimates for the main forestry sectors could be used to calculate a reasonable estimate (see Table 2). These figures do not take account of subsistence production in forestry, such as fire wood for domestic use. The TRA approach found a forestry contribution to GDP of 4%<sup>3</sup>, a level which is greater than the contributions from Mining and Quarrying (3.3%); Electricity and Gas (1.8); and Communications (2.2%)<sup>4</sup>.

Table 2: Estimated contribution of the forestry sector to GDP

	<b>Total Output (TZS Billion)</b>	<b>As % of 2010 GDP</b>
<b>FORESTRY</b>		
- Charcoal	867.0	2.89
- Natural Forest Timber	44.0	0.15
- Plantation Timber	290.0	0.97
- Tobacco Fuel wood	3.7	0.01
<b>Total</b>	<b>1,202</b>	<b>4.01</b>

Source: TRA by JUHUDI 2012

**The forestry sector is larger in value than the entire export crops sector in Tanzania, accounting for USD 751 million in 2012:** The forestry sector can also be compared to the agricultural sector for export crops, for which data exists, most recently for the year 2010. Figure 1 illustrates the fact that the value of forestry activities in Tanzania is greater than the value of all export crops combined (USD 751 million for forestry as compared to USD 730 million for all export crops combined). Indeed the charcoal sector alone is greater than the value of tobacco export sales, which in 2010 were the country’s leading export crop. In addition to the relative size of the forestry sector in comparison to export crops, prices in forestry have been more stable than export crops over the last few years. Figure 1 shows that all crops have experienced large price variations over the period 2009 – 2010. For coffee, cotton, tea, cloves and horticultural

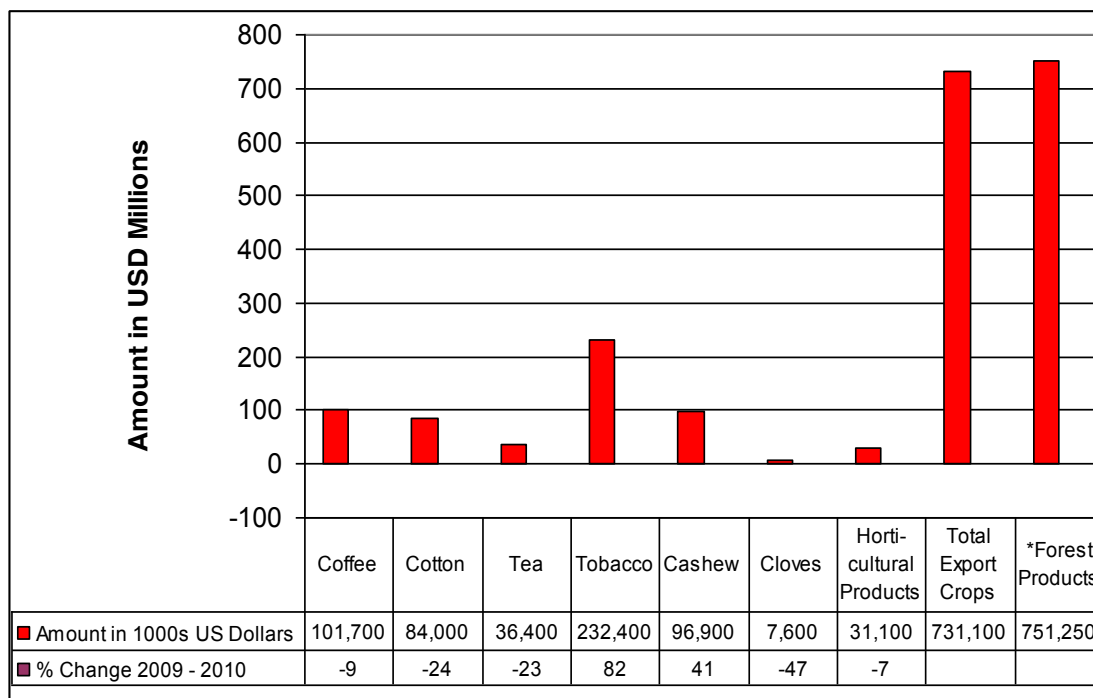
<sup>3</sup> 2012. TRA. A Risk Assessment Study in the Forestry and Fishery Sub-Sectors for Taxation Purposes. By JUHUDI Development

<sup>4</sup> 2011. National Bureau of Statistics, Ministry of Finance. National Accounts of Tanzania Mainland 2001 - 2011

crops the prices declined. In contrast the literature contains examples of forestry prices for both timber<sup>5</sup> and charcoal<sup>6</sup> having increased consistently over the last ten years.

**MNRT estimates that the forestry sector provides employment to as many as 3 million people:** MNRT estimated the forestry sector provided about 3 million person-years of employment in 2009, up from 730,000 person years in 1989<sup>7</sup>. The overwhelming majority of this employment is provided in the informal sector, parts of which are for subsistence and parts of which are unregulated and even illegal. Formal employment in forestry is provided through forest industries, government forest administration and self-employment in forest related activities, such as furniture making, sawing and processing, and in the transporting and selling of charcoal. Labour force surveys do not show data for forestry separately from agriculture, however, the National Forest Programme (NFP) estimates that the sector employs about 3% of paid labour (about 10,000 persons at that time) and an even bigger proportion of people in informal forestry related sector activities<sup>8</sup>.

Figure 1: Comparison of the values of the forestry sector and agricultural export crops in Tanzania.



<sup>5</sup> 2007. TRAFFIC. Forestry, Governance and National Development: Lessons Learned from a Logging Boom in southern Tanzania

<sup>6</sup> 2009. World Bank. Environmental Crisis or Sustainable Development Opportunity?: Transforming the charcoal sector in Tanzania. A Policy Note

<sup>7</sup> 2009. Ministry of Natural Resources and Tourism, Forestry and Beekeeping Division. Participatory Forest Management in Tanzania (1993 – 2009). Lessons learned and experiences to date

<sup>8</sup> 2001. Ministry of Natural Resources and Tourism, Forestry and Beekeeping Division. National Forest Programme

Source: Ministry of Finance 2011<sup>9</sup>; \* TRA by JUHUDI 2012

**Formal employment in forestry is in the 10,000s, 4,250 of whom are employed as forest officers:** A Performance Audit of the Revenue Collection System of the Forestry and Beekeeping Division in 2005 found that at least 4,250 persons were employed as forest officers by the government, of which 1,825 were employed directly by the ministry itself<sup>10</sup>. Between 1998 and 2005, the number of registered softwood mills increased from about 140 to 367. Most of these are small-scale sawmills, with annual log input not exceeding 5,000m<sup>3</sup> and between 5 and 8 employees each. Overall, approximately 3,000 persons are employed in softwood sawmilling. A survey conducted by MNRT in 2009 found that 236 sawmills that were proposed for registration throughout the country provided employment to 3,296 persons<sup>11</sup>.

### *Trade flows*

Tanzanian forest production is channeled through the following principal value chains:

- Charcoal production from natural forest
- Sawn timber from natural forest
- Artisanal furniture from natural forest
- Export timber from natural forest
- Sawn softwood from plantation forest
- Sawn hardwood from plantation forest
- Export timber from plantation forest
- Processed forest products from plantation forest
- Paper from plantation forest

**Charcoal is a growing forestry industry due to increasing urbanization, it is traded through a well developed value chain worth USD 600 million annually:** The forestry sector is estimated to consume more than 40 million m<sup>3</sup>/year of wood biomass in the production of hardwood and softwood timber as well as charcoal. Biomass energy, fuel wood and charcoal are estimated to account for 93% of total energy consumption within the country. The National Forest Programme of the MNRT estimated that in 2001 biomass energy accounted for 95% of Tanzania's total wood consumption of which 26 million m<sup>3</sup> was consumed in rural areas as fuelwood, and 13.4 million m<sup>3</sup> was consumed in urban areas primarily as charcoal. Through population growth, urbanisation and a significant increase in the ratio of urban charcoal use, it is probable that current biomass energy consumption is higher. The consumption of fuelwood in rural areas remains

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<sup>9</sup> 2011. Ministry of Finance. The United Republic of Tanzania. The Economic Survey 2010

<sup>10</sup> 2005. Ministry of Natural Resources and Tourism, Forestry and Beekeeping Division. Audit of performance and redesign of the revenue collection system of the Forestry and Beekeeping Division (FBD)

<sup>11</sup> 2009. Ministry of Natural Resources and Tourism, Forestry and Beekeeping Division. Evaluation of Sawmills and Plants for Registration in Dar-es-Salaam, Morogoro, Northern Tanzania, Tanga, Lake Zone and Western Tanzania.

largely a subsistence activity with little developed markets. In contrast, the urban charcoal value chain is relatively well developed and possessed an estimated value of more than USD 600 million in 2009<sup>12</sup>.

**Tanzania's natural forest hardwoods are relatively valuable as compared to other African countries, the trade is worth an estimated USD 42 million annually:** In 2011 MNRT commissioned a market study of timber dynamics and found that the total harvesting of hardwood logs from natural forests for timber was conservatively estimated at 170,000 m<sup>3</sup>, of which all but about 10,000 m<sup>3</sup> was consumed domestically<sup>13</sup>. Prices for wood from Tanzania have been on the increase and remain high compared with other African countries. MNRT reported that average prices rose from \$250 per m<sup>3</sup> in 2002/3 to \$330 in 2004/5<sup>14</sup>. It was noted that the price ranges on hardwood timber could be a source of revenue loss. Assuming an average price of \$250/m<sup>3</sup> for hardwood timber, the market value of this amount of timber was estimated at around USD 42,500,000/year (or TZS 70.55 billion/year) in the period between 2002 and 2005.

**The softwood harvesting industry is dominated by the government's Sao Hill Plantation, where production has declined by 43% over the last 5 years. The trade is worth an estimated USD 130 million annually:** The Government-owned and managed Sao Hill Forest Plantation produced about one million m<sup>3</sup> of timber a year in 2010/11, representing 80% of all plantation harvesting in the country, but issued permits for only 488,100m<sup>3</sup> in 2014/15. Part of the production is sold under contract to Mufindi Paper Mills (MPM), which consumed 250,000m<sup>3</sup> in 2011 but has been allocated only 110,000 m<sup>3</sup> in 2014, and to Sao Hill Industries, which consumed 100,000m<sup>3</sup> in 2011 but has been allocated only 50,000 m<sup>3</sup> in 2014. However the largest share, some 650,000m<sup>3</sup> in 2011, but allocated only 236,300m<sup>3</sup> in 2014, goes to small and medium size saw millers. The main industries based on plantation forestry are sawmilling, paper production and the supply of telephone and building poles. Further down the value chain, furniture manufacture and joinery draw their main material from the saw millers. Other industries include board production, match manufacturing and tannin extraction. According to the same market study, 1 million m<sup>3</sup> of softwood timber was being harvested from Tanzania's plantations in 2011, thus assuming an average market price of \$130/m<sup>3</sup> for sawn softwood. Revenues of at least \$130 million annually were generated from the softwood timber trade. The reduced supply of softwood timber has resulted in an increased unit price for this product in Tanzania.

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<sup>12</sup> 2009. World Bank. Environmental Crisis or Sustainable Development Opportunity?: Transforming the charcoal sector in Tanzania. A Policy Note

<sup>13</sup> 2011. Ministry of Natural Resources and Tourism. Forestry and Beekeeping Division. Market Study on Timber Market Dynamics in Tanzania and Key Export Markets.

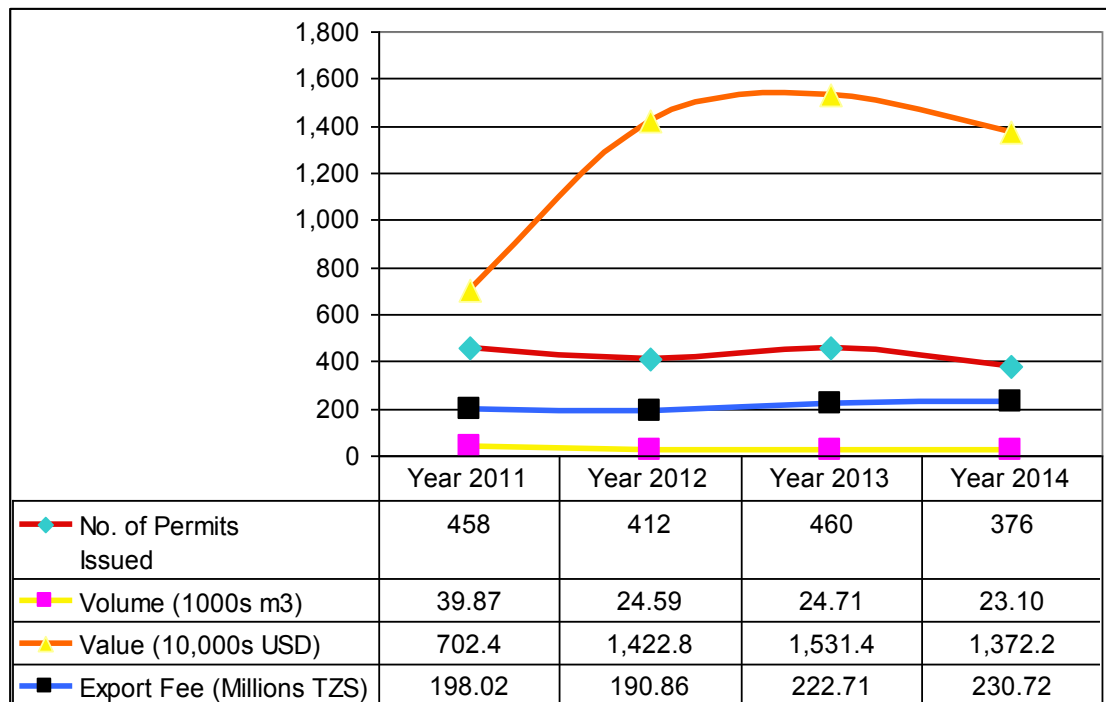
<sup>14</sup> 2007. TRAFFIC. Forestry, Governance and National Development: Lessons Learned from a Logging Boom in southern Tanzania

### *Export destinations*

**Forest exports account for a small fraction of total forest trade, export data is fragmented across the TFS, TRA and TPA:** There is agreement across the literature that out of the 40 million m<sup>3</sup> of logs harvested in Tanzania each year only a small fraction is exported. The exact amount of exported forest products depends again on what is being considered since external markets exist for both sawn timber and for processed products. Data on exported forest products has been obtained from three main sources, namely TFS, TRA and TPA. TFS data reflects the period 2011 – 2014, for which all years cover the entire calendar year except the year 2014, which covers the period from January – July only. Figure 3 illustrates TFS data for the number of export permits issued, the volume of timber, the market value for the timber and the amount collected in export fees. TFS has the mandate to verify, grade, and issue export fees for sawn timber, carvings and wood extracts for all exports from Tanzania. The data represented in Figure 3 was provided by the Exports Unit of TFS Headquarters in Dar-es-Salaam.

**TFS export data shows that export volumes and export fees have remained stagnant for the last 4 years, although the value of forest exports has increased over the same time frame:** Figure 3 shows that the number of permits issued, the volume of products exported and the export fees collected have remained stable over the four year period for which data has been obtained. There has been an increase in the value of the forest products exported but this reflects an increase in prices rather than a reflection of increased exports. The value of forest products has increased from USD 7 million in 2011 to USD 15 million in 2013 (a 114% increase) however, the export fees collected as government revenue only increased from TZS 198 million to TZS 222.7 million (12.5% increase) over the same period. The modest increase in export fee collection relative to the market value of forest exports could indicate a problem in the grading process, where the value of the forest product is undervalued. It may also be related to the volume of forest products which declined from 39,870 m<sup>3</sup> to 24,710m<sup>3</sup> (a 38% decrease) during this same period.

Figure 3: Number of Export Permits issued, Value of Forest Products exported, and the value of Export Fees collected by the Ministry of Natural Resources and Tourism from 2011 - 2014



Source: TFS 2014

**TRA export data records values for processed forest goods, which results in export values 2 times the TFS values that reflect sawn timber and only some processed goods:** Export data was also obtained from TRA for the years 2008/2009 and 2010/2011. The TRA data set, in addition to data for exports of sawn timber and carvings, also includes an expanded range of forest products such as plywood, veneer panels, crates and other wood packaging. As a result of including processed forest products the TRA export values are greater than the values listed by TFS. Nonetheless, the TRA data showed a decline in the value of exports of forest products from USD 34.6 million in 2008/2009 to USD 25.1 million in 2010/2011. Table 3 shows the relative share of different destination countries for the value of forest products exported from Tanzania for the Fiscal Year 2010/2011. India and Kenya together accounted for 70.8% of the value of all forest exports from Tanzania. China in comparison accounted for only 8.3% of the value of exports. These numbers reflect the fact that China imports only sawn natural forest timber from Tanzania, and does not import any plantation timber or processed products, which have relatively higher value than rough sawn timber. Kenya on the other hand, imports a large amount of sawn timber but also imports wood wool and wood flour, which are wood extracts and are hence considered processed goods.

**The TRA export data indicates that India, Kenya and China are the most important export markets, in contrast the TFS data did not show the importance of the Kenyan market:** The TRA data set shows the dominant position that exports to India represent, accounting for almost half of the value of all forest products from Tanzania. Indeed, India is the primary destination for sawn teak timber from Tanzania. On the other hand TFS data for exports in the calendar year 2014 shows that 87.7% of the volume, and an equal percentage of the market value of timber, were destined for China and India, with 29% and 19% of the volume and the value respectively, representing exports to China and 60% and 69% of volume and value respectively, representing exports to India. There is a large discrepancy between the TFS and TRA data with regards to exports to Kenya. The TRA data shows that Kenya, at 22% of value, is the second most important export market for Tanzanian forest products. The MNRT market survey for timber dynamics also reported that sawn timber and pole exports to Kenya from Tanzania were significant, reaching close to 35,000m<sup>3</sup> in 2008<sup>15</sup>. The market study found that export data kept in zonal offices of TFS were not reflected in the aggregated data stored at the headquarters. There are two possible explanations for the differences in Kenyan exports data. One is that exports to Kenya have decreased significantly since 2008 when they represented a large share of exports, or that export data from zonal offices of TFS is still not being collected and reported on by the headquarters in Dar-es-Salaam. It is worth noting that several stakeholders in Mufindi District, which was visited by the consultants, firmly believe that a significant amount of softwood timber and poles continue to be exported to Kenya in large quantities.

Table 3 Relative share of the value of forest products exported from Tanzania in 2010/2011 as according to TRA

Country of Destination	Percent Share of Value of Exports
China	8.3
India	48.8
Kenya	22.0
Norway	4.2
Singapore	1.4
USA	2.1
South Africa	1.0

**TPA provided 2 different data sets, one from the Port of Dar-es-Salaam and another from TICTS:** Data on shipping containers was obtained from the Port of Dar-es-Salaam, through two different channels. Data on sawn timber was received from the Tanzania International Container Terminal Services Limited (TICTS) for the period 2010 to 2014, although the year 2010 represented the period November – December only and the year 2014 was for the period January – July. Another set of sawn timber shipping data was

<sup>15</sup> 2011. Ministry of Natural Resources and Tourism. Forestry and Beekeeping Division. Market Study on Timber Market Dynamics in Tanzania and Key Export Markets

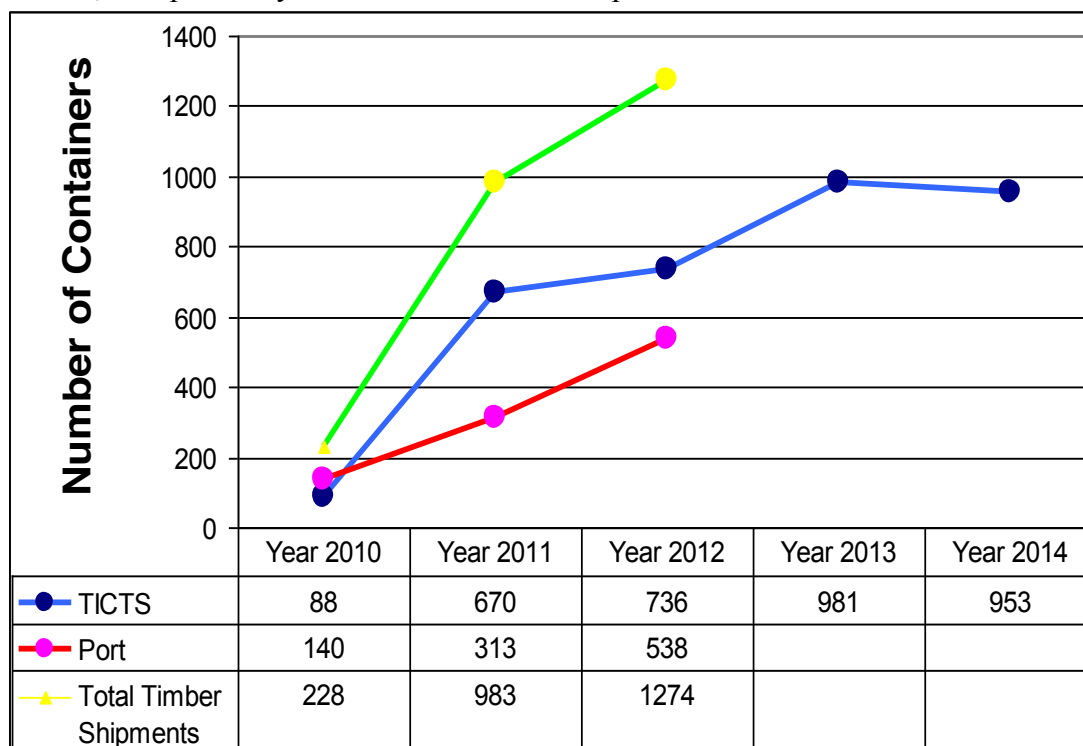


obtained from TPA, through the Port of Dar-es-Salaam, which presumably was exclusive of the data obtained through the TICTS terminal. The TPA data represents shipping containers for the period 2010 – 2011 only. Figure 4 illustrates the data contained in the two shipping information sets, showing the number of containers having registered sawn timber as their cargo, leaving the Port of Dar-es-Salaam.

**Shipping data shows a consistent increase in volume over the last 4 years, this contrasts with TFS and TRA export data that show stagnant exports over the same period:** The shipping data is interesting in that it indicates that there has been a steady increase in containers carrying sawn timber for export from Tanzania over the entire period 2010 to 2014. The increasing trend is true for both sets of shipping data, whether it is for the TICTS terminal or for the Port of Dar-es-Salaam. On the face of it, this trend conflicts with TFS data that indicates stability in forest exports at around 24,000m<sup>3</sup> and is contrary to TRA data that showed a decline in exports for the year 2010 – 2011. The shipping data shows that most of the containers carrying sawn timber cargo from Dar-es-Salaam were 20 foot containers with an average volume of 25 – 35m<sup>3</sup>/Container, although a significant number of containers were 40 foot containers with volumes of around 70m<sup>3</sup>/Container. This implies that, if all of the shipped containers are full of sawn timber, as their manifests claim, then the amount of timber shipped in the period from 2011 – 2014 would be in excess of the 24,000m<sup>3</sup>/year that were issued export permits by TFS.

**Shipping data shows a dominant position of Asian destinations for Tanzanian sawn timber:** The TICTS information did not contain the port of destination, so it was not possible to identify to where the sawn timber was being exported. However, the TPA data did contain this information. The TPA data shows that the sawn timber from Tanzania was mainly being shipped to the Port of Singapore (74%) followed by Port Klang, Malaysia (18%), and Tanjung Pelapas, Malaysia (6%). This information confirms a mainly Asian destination for the overwhelming majority of shipped Tanzanian forest products.

Figure 4: Number of shipping containers carrying sawn timber exported through Dar-es-Salaam, as reported by TICTS and TPA for the period 2010 - 2014



Source: TPA 2012 and TICTS 2014

## 2.2 Types of Payments to Government

### 2.2.1 Forestry Revenues

**Government forestry revenue comes from natural forest, plantations, exports and services:** The Government Notice (GN) 433 of November 2013 made under *Sections 77 and 78 of the Forest Act No. 14 of 2002* establishes four main sources of fees and royalties, namely (i) natural forest products (sawn logs, poles, firewood, charcoal etc); (ii) forest plantations products; (iii) exports; and (iv) non wood forest products (grazing, orienteering, camping, road service, etc).

#### Sources of revenue

##### 2.2.1.1 Natural forests

###### (a) Sawn logs

**Sawn timber from natural forests are classified into classes that determine royalty fees, sawn timber from natural forests accounts for less than 5% of government revenues:** Sawn logs are classified in five classes with corresponding specific fee structures.

More than 90% of the species harvested for timber are in classes I & II. Royalties charged for sawn logs vary from TZS 76,800/m<sup>3</sup> for class IV logs to TZS 230,400/m<sup>3</sup> for class IA logs<sup>16</sup>. The main uses of sawn wood include household furniture, construction and export. In 2006/7, the last year for which disaggregated data at the national level is available, revenue from the sale of sawn logs from natural forests constituted about 4.3% of total revenues collected by MNRT<sup>17</sup>.

Table 4: Royalty rates for Tree Species from Natural Forests

Classes of Logs	Tree Species (by common Kiswahili names)	Royalty Per Cubic Meter in TZS (Standing Tree Volume)
Class IA	<i>e.g.</i> Mpingo, Msindi, Peramwitu	230,400/=
Class IB	<i>e.g.</i> Mninga, Mvule, Pangapanga, Mkora	204,800/=
Class II	<i>e.g.</i> Mtundu, Myombo, Mkarati, Mzambarau	153,600/=
Class III	<i>e.g.</i> Msisi, Mnepa, Msufi-Mwitu, Muhama	115,200/=
Class IV	All tree species not listed in preceding classes	76,800/=

Source: 2013. United Republic of Tanzania GN 433

#### (b) Poles

**Poles from natural forests and mangroves are more valuable than from plantations, poles generate less than 1% of government revenue:** Poles are harvested from both Natural and Plantation forests. Royalty charged for poles ranges from TZS 256 (plantation) to TZS 1,920 (natural forest) per piece<sup>18</sup>. Revenue from the sale of poles from natural forests constituted about 0.1% of the total revenue collected by MNRT in 2006/07<sup>19</sup>.

Table 5: Fees for Poles from Government Forest Reserves and Government Plantations

Pole Size (in centimetre diameter at breast height, DBH)	Royalty Rate Per Pole
<b>Natural Forest Species</b>	
10 – 20 cm	1,920/=
5 – 10 cm	1,280/=
<b>Mangroves</b>	
15 – 20 cm	1,536/=
10 – 14.9 cm	1,280/=
5 – 9 cm	1,024/=

<sup>16</sup> 2013. The United Republic of Tanzania, Government Notice 433. Forest Act No. 14 Fourteenth Schedule

<sup>17</sup> 2010. Ministry of Natural Resources and Tourism. Report of the Task Force on Improving Revenue Collection in The Ministry of Natural Resources and Tourism. Volume i: Main Report

<sup>18</sup> 2013. The United Republic of Tanzania, Government Notice 433. Forest Act No. 14 Fourteenth Schedule

<sup>19</sup> 2010. Ministry of Natural Resources and Tourism. Report of the Task Force on Improving Revenue Collection in The Ministry of Natural Resources and Tourism. Volume i: Main Report

< 5 cm	768/=
<b>Softwood Plantation Species</b>	
6 – 10 cm	256/=
<b>Hardwood Plantation Species</b>	
< 10 cm	896/=
All Eucalyptus	640/=

Source: 2013. United Republic of Tanzania GN 433

### (c) Firewood

**Firewood is considered a domestic good and as a result TFS does not focus on collecting these revenues, although there are some industrial uses of firewood:** Firewood is the principal source of household energy in Tanzania. A large proportion of the firewood consumed for domestic purposes in the rural areas, and a large amount used in the urban and semi-urban areas is obtained without paying any royalty fees. In some Regions such as Tabora, miombo species suitable for timber are used as firewood for tobacco curing. Firewood for commercial uses such as tobacco curing, when collected from natural forest, is charged at a royalty rate of 5,120 per stacked cubic meter<sup>20</sup>. Revenue from the sale of firewood from natural forests constituted about 0.8% of the total revenue collected by MNRT in 2006/07<sup>21</sup>.

### (d) Charcoal

**Charcoal is a large generator of government revenue, its use is increasing due to urbanization:** Charcoal is mostly used in urban and sub-urban areas with relatively little used in villages as a source of energy. Charcoal's importance in terms of revenue is high in comparison to other forest products. This is attributed to the large volumes consumed in large urban centres like Dar es Salaam, Arusha, Tanga, Mwanza etc. Charcoal royalties are charged per bag of 90 Kg at a rate of 14,400/bag<sup>22</sup>. Revenue from sale of charcoal from natural forests in 2006/07 constituted 44 % of total revenue collected by MNRT<sup>23</sup>.

## 2.2.1.2 Revenue from plantation forests

**The government collects 45% of revenue from its plantations, most of which are planted with softwood trees:** Tanzania has 16 plantation forests, which cover a total area of approximately 80,000 ha. The main species planted include Pines (*Pinus patula* and *Pinus caribea*), Cypress (*Cupressus lusitanica*), *Eucalyptus spp.*, and Teak (*Tectona grandis*). More than 95% of the total plantation area is planted with softwoods. All teak sizes greater than 10 cm are sold according to prevailing market prices as determined from auctions through public tender<sup>24</sup>. Revenue from the sale of softwood and hardwood

<sup>20</sup> 2013. The United Republic of Tanzania, Government Notice 433. Forest Act No. 14 Fourteenth Schedule

<sup>21</sup> 2010. Ministry of Natural Resources and Tourism. Report of the Task Force on Improving Revenue Collection in The Ministry of Natural Resources and Tourism. Volume i: Main Report

<sup>22</sup> 2013. The United Republic of Tanzania, Government Notice 433. Forest Act No. 14 Fourteenth Schedule

<sup>23</sup> 2010. Ministry of Natural Resources and Tourism. Report of the Task Force on Improving Revenue Collection in The Ministry of Natural Resources and Tourism. Volume i: Main Report

<sup>24</sup> 2013. The United Republic of Tanzania, Government Notice 433. Forest Act No. 14 Fourteenth Schedule

species from plantation forests in 2006/07 was about TZS 6.8 billion, which constituted about 45% of the total revenue collected by MNRT<sup>25</sup>.

Table 6: Royalty rate for Softwood Trees from Government Plantations

Diameter Class for Standing Tree from Softwood Plantations	Royalty Fee/m <sup>3</sup>
11 – 20 cm	3,920/=
21 – 25 cm	7,850/=
26 – 30 cm	19,635/=
31 – 35 cm	33,965/=
> 35 cm	37,690/=
Pulpwood	12,400/=

Source: 2013. United Republic of Tanzania GN 433

### 2.2.1.3 Revenue from export of forest products

**Export of forest products is carried out at many points however issuing export permits and grading only takes place in Dar-es-Salaam, Arusha and Tanga. Exports account for only 1.4% of TFS revenue:** Exporters of forest products are required by law to pay grading and export permit fees for each consignment exported. The main outlets for the export of forest products are Dar es Salaam, Mtwara, Lindi, Tanga, Kilwa, Bagamoyo, Rufiji, Pangani, Arusha, Kilimanjaro, Mwanza, Mara, Kagera, Kigoma, Rukwa, Mbeya, Iringa and Ruvuma. Several other minor outlets and unregistered routes exist and are regularly used, which makes their monitoring and control ineffective. Export permits are issued in Dar es Salaam, Arusha and Tanga. Fees charged on the export of forest products contributed about 1.4% of the total revenue collection by MNRT in 2006/07<sup>26</sup>. The export of charcoal, round logs and sawn timber with more than 4 inch thickness, is prohibited by the Forest Act of 2002.

Table 7: Fees for Grading and Inspecting for Export and Import of Forest Products

s/n	Items for Export and Import that require Grading and Certificate	Fee Rate in TZS
<b>1. Grading and Inspection Fees</b>		
1.	Grading fee for commercial consignments such as timber and other forest products for export for consignments not exceeding 20m <sup>3</sup>	128,000
2.	Fees for inspection of carvings/handicrafts, tannins, gum, jatropha oil, sandalwood products and other forest products for export for consignments not exceeding 20 tons	128,000
<b>2. Export Certificate Fees</b>		

<sup>25</sup> 2010. Ministry of Natural Resources and Tourism. Report of the Task Force on Improving Revenue Collection in The Ministry of Natural Resources and Tourism. Volume i: Main Report

<sup>26</sup> Ibid

3.	Export certificate fee for commercial consignment	128,000
4.	Fees for inspection of pulp paper (per consignment not exceeding 20 tons)	100,000
5.	Export certificate fee for non-commercial consignments, values less than USD 300	38,400
<b>3. Importation Charges</b>		
6.	Inspection handling fee for commercial consignment of 20m <sup>3</sup>	100,000
7.	Inspection/handling fee for non-commercial consignments whose value is less than USD 300	38,400

Source: 2013. United Republic of Tanzania GN 433

### 2.2.1.4 Revenue from non wood Forest products

Non-wood forest products include water, mushrooms, medicinal plants and raffia. TFS does not pay much attention to non-wood products as far as revenue collection is concerned. However, non-wood products play a significant role at household level as source of food, fibre and medicine.

### 2.2.1.5 Revenue from forest services

Licenses for forest services are required in order to establish and operate sawmills, telecommunication facilities, pier and landing sites, salt pans, commercial business, camping in forest reserves, orienteering, fines etc. Fees charged on other charges contributed 4 % of the total revenue collection by MNRT in 2006/07<sup>27</sup>.

### 2.2.1.6 Levies

**Local Governments levy a 5% cess on royalties:** Local Government Authorities are entitled to charge cess on forest produce harvested in their respective areas, in accordance with Local Government Act No. 9 of 1982. Local Government Authorities charge a cess or levy of 5% of the royalties charged by the central government<sup>28</sup>.

### 2.2.1.7 Certificate of Registration

The Forest Act requires Dealers and Traders of Forest Produce (DFP) to be registered. Registration is carried out between July and September each year. The certificate of registration is valid for one financial year. Registration fees differ depending on the nature of forest trade being undertaken, with fees ranging from TZS 25,000 for an artisanal carpentry business to TZS 2,000,000 for a pulp and paper mill<sup>29</sup>.

<sup>27</sup> 2010. Ministry of Natural Resources and Tourism. Report of the Task Force on Improving Revenue Collection in The Ministry of Natural Resources and Tourism. Volume i: Main Report

<sup>28</sup> Ibid

<sup>29</sup> 2013. The United Republic of Tanzania, Government Notice 433. Forest Act No. 14 Fourteenth Schedule

Table 8: Fees for Registering a Forest Trade

s/n	Type of Forest Produce Dealer and Trader (per site, per year)	Registration Fee in TZS
1	Pulp and Paper Mill	2,000,000
2	Chipboard, Hardboard, Plywood Mills and Sawmills (capacity > 5,000m <sup>3</sup> )	1,000,000
3	Sawmill (capacity < 5,000m <sup>3</sup> )	512,000
4	Exporter and Importer of Forest Products	512,000
5	Timber yard, Furniture Mart, Pitsawyer	256,000
6	Logs, Poles, Charcoal and Firewood Dealers	256,000
7	Woodworks factory	384,000
8	Artisanal Carpentry	25,600

Source: 2013. United Republic of Tanzania GN 433

### 2.2.1.8 Licences for Harvesting

Harvesting licenses specify the type of forest produce, sources and conditions that are allowed to be harvested. Licences, which are issued by TFS or DFOs are for trees, timber, logs, poles, charcoal, and firewood from natural forests and plantation forests. The fees associated with a harvesting license are determined by the royalty rate.

### 2.2.1.9 Transit Pass

A Transit Pass or Transit Permit (TP) is a document which controls the movement of forest products from production area to market. TPs are typically valid for 1 to 7 days depending on the distance between production area and the market. In the past, TPs were issued by DFOs or by Regional Natural Resources Officers, if produce was being transported across Regional borders. Currently, TPs are being issued by TFS staff based in districts. Transit Passes are charged at TZS 6,500 for a 7 ton or lighter vehicle and TZS 13,000 for any vehicle weighing more than 7 tons<sup>30</sup>.

### 2.2.1.10 Logging and Miscellaneous Account (LMDA)

LMDA is a fee charged to cater for silvicultural activities and road management in government plantations. It is applied to all traders with harvesting licenses in plantations and is paid to TFS. Traders pay TZS 7,000/m<sup>3</sup> as road fee and TZS 7,000/m<sup>3</sup> as a silviculture fee in softwood plantations, whereas TZS 14,000/m<sup>3</sup> as road fee and TZS 14,000/m<sup>3</sup> as silviculture fee are charged in hardwood plantations<sup>31</sup>.

### 2.2.1.11 Tanzania Forestry Fund (TaFF)

The Tanzania Forest Fund is provided for in the Forest Act of 2002 and is defined in GN 433. It allows for a 5% surcharge on forest royalties from government natural forest

<sup>30</sup> 2013. The United Republic of Tanzania, Government Notice 433. Forest Act No. 14 Fourteenth Schedule

<sup>31</sup> Ibid

reserves and general lands. According to the GN the TaFF is explicitly meant for tree planting.

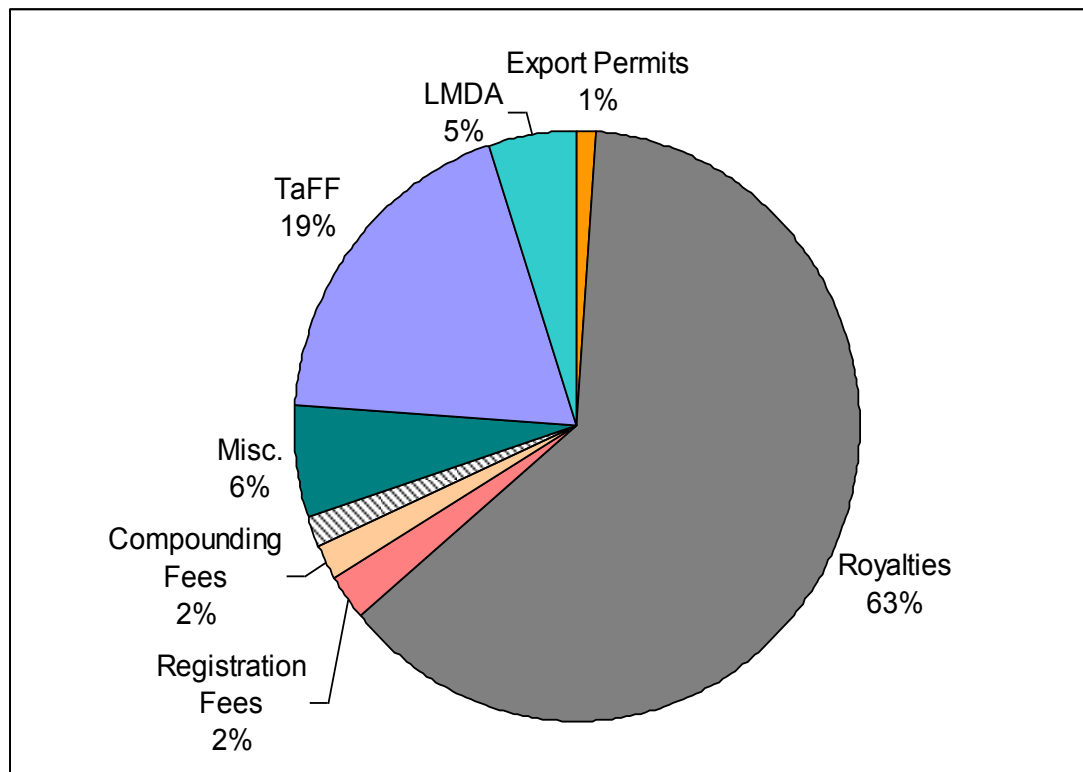
#### **2.2.1.12 Payments under Participatory Forest Management (PFM)**

**Village Governments can also declare forests on village lands and issue harvesting permits:** The Forest Act 2002 made provisions for communities to manage forests on village lands and for the powers of the director of forestry to be delegated to these communities, once a forest management plan is approved. These community rights have come to be known as Participatory Forest Management, which allows for village governments to solicit payments from traders for forest products from Village Land Forest Reserves. These payments are not subject to any taxes or levies from central government or district councils. The rates charged are negotiated between villages and traders and are not subject to the government's royalty rates. To date, only a few villages in 3 or 4 districts are realizing significant revenues from PFM, however, there is an increasing trend of villages adopting PFM. There are probably no more than 50 villages and not more than TZS 500 million/year that are generated from PFM in the country as of 2014. This revenue stream is not being monitored nationally by TFS.

**Most TFS revenue is collected from royalties or from TaFF and LMDA, which are calculated from royalty fees and harvested trees. Revenues from fines and confiscations generate a surprisingly low 2%:** Figure 5 reflects the breakdown of revenues collected by TFS for the entire country for the Fiscal Year 2012/2013. The total revenue collected was some TZS 62.6 billion but this figure does not reflect the 5% cess that is collected on behalf of Local Governments where harvesting takes place. The largest amount of revenues is collected from royalty payments for harvesting forest produce. The TFS data that was analyzed here did not disaggregate the royalty data to characterize which forest product generated a particular revenue stream. As a result it is not possible to determine what relative share charcoal and timber contributed to the overall revenue. In addition to royalties that contributed to 63% of all revenues, TaFF charges generated an additional 19% of total revenues. LMDA, which is collected from government plantations, contributed to 5% of overall revenue. The compounding of fees, including fines and penalties levied on traders caught with illegal forest produce, contributed to only 2% of total revenues. Considering the high perceived levels of illegality in the sector it is surprising that compounding fees contributed so little. The low level of revenues generated from fines and penalties may reflect a significant level of clemency shown to traders, where they are not charged to the full extent of the law for their illegal actions.



Figure 5: Relative share of different types of payments made to TFS by forest traders



Source: TFS 2014

**Miscellaneous charges account for 6% of revenue but are not clearly defined:** Figure 5 also shows that the revenues collectively listed as Miscellaneous contributed to 6% of all revenues although it is not clear exactly what these revenues refer to. The reason that this is of concern is because 6% of all revenues is the third largest TFS revenue source, after royalties and TaFF, and it actually represents TZS 3.76 billion. Registration fees and Export Certificates contributed to minor amounts of revenue. TaFF is calculated from 5% of royalties from natural forest and is earmarked revenue meant for replanting in natural forests. This means that royalties and TaFF together contribute to 72% of all revenue collected by TFS.

### 2.2.2 Direct Taxes

In contrast to the royalties and fees listed above, which are provided for under the Forest Act 2002, the following direct taxes are governed by the Income Tax Act 2004 and are administered by the Tanzania Revenue Authority:

- Corporate income tax
- Individual income tax (personal income tax and presumptive income tax)
- Pay-as you-earn (PAYE)
- Withholding tax
- Skill development levy (SDL)

These taxes fall under the administration of the Domestic Revenue Department and the Large Taxpayers Department<sup>32</sup>.

**Tax payment is based on registration and self assessment, employees are taxed through the PAYE system:** The first step for taxpaying is registration, which means acquiring a TIN number. The Income Tax Act requires an individual to register their business. As a business the taxpayer must keep accounts and be able to provide information on turnover, costs, employment and net earnings. Employees are taxed through the PAYE system. Likewise, if an individual is an investor they must provide information on investment earnings. At the end of the year, the taxpayer is required to file a tax return showing total earnings from the business, employment and investment income. The second step is self-assessment, which means that a trader, investor or employee are required to assess the amount of tax payable in a given year by calculating their actual income, based upon the previous financial year, and expected income of the forthcoming financial year<sup>33</sup>.

The third stage is payment of tax to TRA. For a large corporation, tax is paid twice yearly, for a small business quarterly. The last stage takes place at the end of the year. In this stage the taxpayer files the final return to show whether final assessment is equal to, less than, or greater than the initial assessment. The basic functions of the TRA are assessment, collection and remittance of tax revenue to the government. The TRA is required to ensure that taxpayers who qualify for registration are indeed registered. If it transpires that a company incurs losses in three consecutive years, in the fourth year it will be required to pay a turnover tax instead of 30% corporation income tax<sup>34</sup>.

### **2.2.2.1 Indirect Taxes**

The major indirect tax categories are Value Added Tax (VAT) and excise duty. These taxes are levied under the Value Added Tax Act, 1997. As with direct taxes, these taxes are administered by the Domestic Revenue and Large Taxpayer Departments of TRA<sup>35</sup>.

### **2.2.2.2 Value Added Tax (VAT)**

**TRA requires businesses with turnover greater than TZS 40 million to register for VAT, retailers and manufacturers are also required to use Electronic Fiscal Devices but TRA does not have the capacity to monitor VAT registrations:** As with direct taxes, the first stage of the process is registration. A business with a turnover of TZS 40 million or greater is legally required to register for VAT payment. It is understood that the TRA does not check which businesses have reached the VAT threshold very closely. According to the TRA website, businesses with turnover below the threshold are subject to Stamp Duty. Stamp duty is levied at the rate of 2% of the turnover for traders with

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<sup>32</sup> 2012. TRA. A Risk Assessment Study in the Forestry and Fishery Sub-Sectors for Taxation Purposes. By JUHUDI Development

<sup>33</sup> Ibid

<sup>34</sup> Ibid

<sup>35</sup> Ibid

composition agreement with the TRA, while those using adhesive stamps affixed on cash receipt pay 3.6% of the sale value. The duty is paid by businesses, which are not VAT registered. However, Stamp Duty is not being applied on businesses which fall below the VAT threshold. As such businesses with turnover below the threshold pay no indirect taxes. Once registered for VAT, a taxpaying business must collect VAT receipts from suppliers and issue them to all customers. There is a new regulation that formally requires retailers, supermarkets and manufacturers to use Electronic Fiscal Devices (EFDs). In order to ensure that this takes place it is an offence for these businesses not use an EFD. The final stage is to remit the VAT to the TRA, where the amount due is the total VAT collected minus the total VAT paid on business purchases. To pay the correct amount, a business must therefore keep accurate records of all sales and purchases made during the accounting period. This is a significant challenge for SMEs, especially so since returns must be made monthly<sup>36</sup>.

### **2.2.2.3 Excise duty**

**TRA does not apply an excise duty to forest products:** In Tanzania, as in many other countries, excise duties make an important contribution to public revenues. Excise duty on domestic goods is under the administration of the TRA Domestic Revenue Department, while excise duty on imports is administered by the Customs and Excise Department. For the taxpayer, the first stage is to register if producing or selling excisable goods or services. The tax payer must then make payment of excise duty to the TRA. The TRA undertakes registration of the taxpayer, conducts tax assessments, and collects and remits excise duty to the government<sup>37</sup>.

### **2.2.2.4 Trade Taxes**

Trade taxes comprise import duty, excise duty and VAT on imports. These taxes are provided for by the East African Community Customs Management Act, 2004. The responsible department for administering these taxes is the Customs and Excise Department. These taxes have relatively little effect on the potential for increased revenues from the forestry sector, so only a brief description is given here<sup>38</sup>.

**TRA does not administer an export tax on forest products, the law provides for TRA to apply an uplift on forest imports:** Tanzania applies no general export tax. However, the sector ministry does charge export fees on forestry exports, which were described in previous sections. Duty on the import of goods and services is assessed on the c.i.f value of imports, normally at the value shown on the invoice. However, where the TRA consider that the invoice does not reflect the true value of the goods, uplift may be applied. For example, in the case of imported motor vehicles, TRA has prepared a calculator to enable an importer to know how much total tax he will pay. Although this

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<sup>36</sup> 2012. TRA. A Risk Assessment Study in the Forestry and Fishery Sub-Sectors for Taxation Purposes. By JUHUDI Development

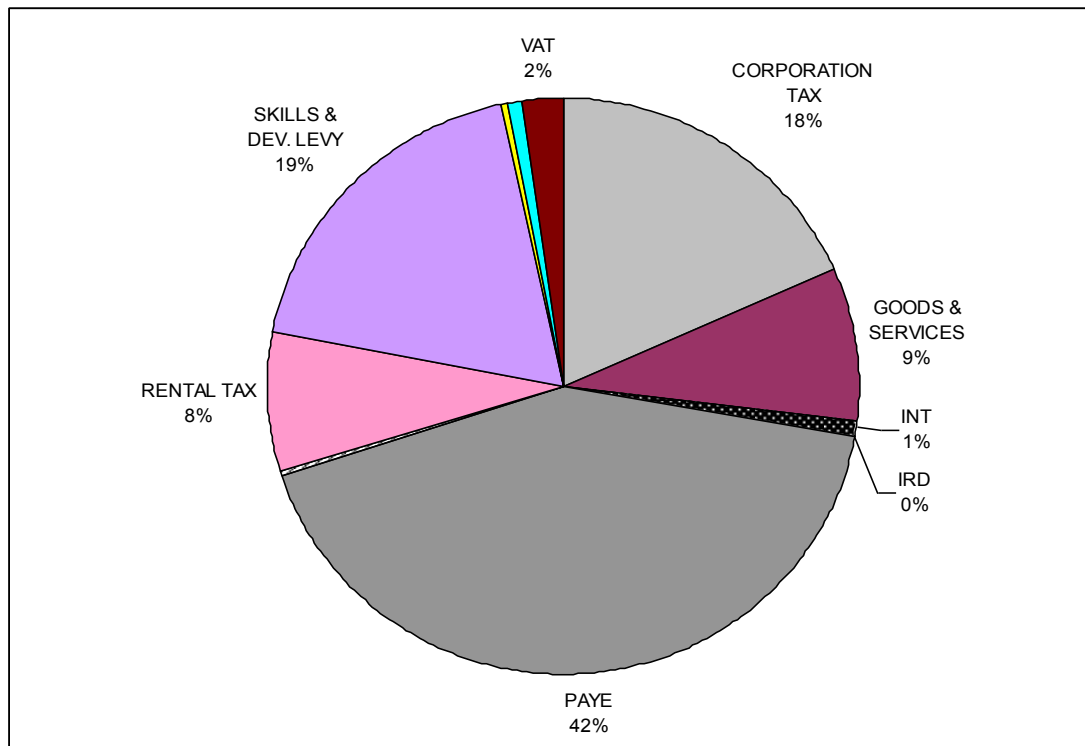
<sup>37</sup> Ibid

<sup>38</sup> Ibid

helps to limit tax evasion, it may penalise taxpayers who declare the true value of their imports<sup>39</sup>.

**TRA assesses the value of imported goods and applies a common external tariff:** For imported goods subject to excise duties, the duty is charged on the c.i.f value plus the import duty. In the same way, VAT on imports is calculated on the c.i.f value plus import duty plus excise duty. The taxpayer is required, by law, to declare the customs value of the import good. TRA then assesses the value of the imported goods and applies the common external tariff to calculate and collect the trade taxes. Often disputes arise with respect to the assessed value<sup>40</sup>.

Figure 6: Relative share of the different types of payments to TRA by forest enterprises



Source: TRA 2014

**Payroll taxes (PAYE and SDL) account for 61% of all TRA revenue from forestry enterprises. VAT provides only 2% of revenue:** Figure 6 illustrates the different payments that are collected by TRA from forestry enterprises for the Fiscal Year 2013/2014. The data indicates that the largest contribution to revenue is Pay-As-You-Earn (PAYE), which is a tax levied on employees salaries. PAYE accounts for 42% of the TZS 3.68 billion that was collected from forestry enterprises by TRA in that year.

<sup>39</sup> 2012. TRA. A Risk Assessment Study in the Forestry and Fishery Sub-Sectors for Taxation Purposes. By JUHUDI Development

<sup>40</sup> Ibid

PAYE contribution was followed by SDL and Corporation tax at 19% and 18% respectively. SDL refers to Skills and Development Levy and is calculated from the number of employees of an enterprise. As such, the greatest contributors to TRA revenues from forest enterprises are payroll taxes associated with the number of employees. Nonetheless, corporation taxes were substantial at 18%, which indicates a satisfactory level of profits within the tax paying forestry sector. However, the TRA taxes reflected in figure 6 represent payments from only four registered companies. Surprisingly, VAT only accounts for 2% of TRA revenues from forestry, although the VAT rate is 18%. This level of contribution from VAT appears to be unreasonably low.

## 2.3 Revenue Collecting Government Agencies

### Current Revenue Collection System

#### Procedures for setting and collecting royalties, fees and levies

##### (a) Setting of forest charges

The Forest Act No. 14 of 2002 empowers the Minister responsible for forestry to make Regulations which prescribe type of fees and licenses. Also, in order to maintain good harmony and partnership with other stakeholders, price setting is participatory whereby all relevant stakeholders are expected to be sufficiently involved.

#### **Royalty rates are determined administratively and are not based on forest markets:**

Though royalty rates have been updated on several occasions over the last three decades, a concise model for their determination has never been developed. This has made stakeholders claim that there is an urgent need for royalty rates to be determined based on an “economic surplus” model which will enable development of efficient markets and maximize revenue. To date, royalty rates have largely been determined arbitrarily with no real recognition of market value. However, in setting fees and royalties, there are procedures which are followed although they are not provided for in the Act, Regulations and Guidelines<sup>41</sup>. These procedures are:

- (i) Director of Forestry (DFoB) appoints a task force,
- (ii) Task Force visit key stakeholders for consultation and review stakeholders views and concerns,
- (iii) Benchmark with other best practicing systems regional and international
- (iv) Task Force consolidates views, analyze, evaluate,
- (v) The Task Force review existing fee structure and rates
- (vi) The Task Force submits the draft report to DFoB,
- (vii) The report is sent to AG Chambers for review,
- (viii) The Minister approves the fees and royalties.
- (ix) The approved fees are sent to the Government printer

**Royalty rates are usually revised in every second year, often tree species are re-classified:** In practice, the review of fees and royalties is conducted irregularly, although it is ideal to be reviewed at least after every two years in order to be abreast with domestic, regional and international market trends. The first schedule of forest royalty rates was published in 1965 and subsequent revisions were done in 1972, 1975, 1981, 1985, 1987, 1990, 1991, 1992, 1993, 1994, 1995, 1996, 2000, 2001, 2002, 2004 and 2007<sup>42</sup>. The current royalty rates were published on 29<sup>th</sup> November 2013<sup>43</sup>. Major issues

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<sup>41</sup> 2010. Ministry of Natural Resources and Tourism. Report of the Task Force on Improving Revenue Collection in The Ministry of Natural Resources and Tourism. Volume i: Main Report

<sup>42</sup> Ibid

<sup>43</sup> 2013. The United Republic of Tanzania, Government Notice 433. Forest Act No. 14 Fourteenth Schedule

in these revisions are mainly re-classification of tree species, which results in increased number of classes and general increases in the rates charged. These changes are announced in the government gazette and copies circulated to all stakeholders.

**(b) Collection of revenue from Natural Forest**

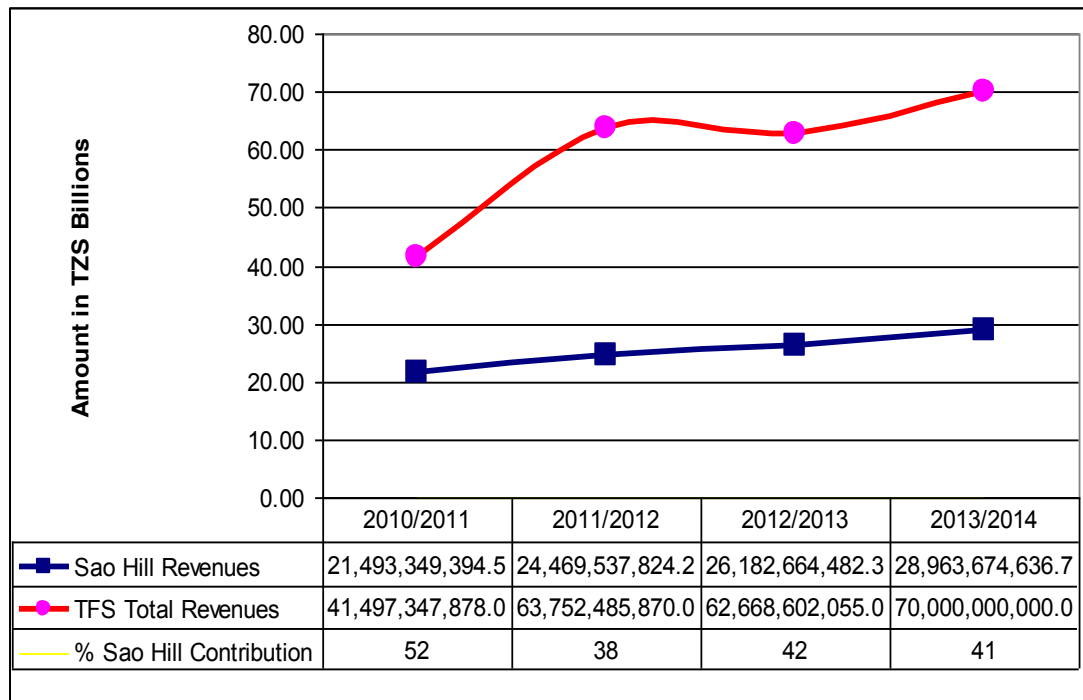
**Revenues from natural forests are collected by DFOs, local government employees, and by Forest Managers in districts and 7 zonal offices:** Revenues are collected by District Forest Officers (DFO), who are employed by Local Governments and District Forest Managers and Zonal Forest Officers all of whom are employed by TFS. Grading and export fees, some royalties and registration fees are collected by TFS headquarters in Dar-es-Salaam. Revenue collected by DFOs, DFM, ZFOs, and PMs, as royalties and fees, are transferred to the Permanent Secretary MNRT. The Logging and Miscellaneous Deposit Account (LMDA) is collected by Plantation Managers and is deposited at Regional sub-Treasuries as retention. TFS Zonal Officers also collect revenue through patrols, checkpoints and auctions.

**Revenues collected by TFS have increased by 40% over the last 4 years and by 25% at Sao Hill Plantation during the same period:** Figure 7 illustrates the trend in revenue collection by TFS from all over the country and from Sao Hill Plantation, the country's biggest softwood plantation. The data clearly shows that there has been an upward trend in revenue collection over the last four years. In fact, the period reflected in figure 7 represents the four years that TFS has existed, since it was established in 2010. This indicates that the restructuring of the government forestry administration has led to improved revenue collection. The data shows that overall forestry revenues have increased by 40% over the last four years, reaching about TZS 70 billion by June 2014. At the same time, revenues from Sao Hill Plantation have also increased but at a slower rate of 25%, almost reaching TZS 29 billion by June 2014. The contribution of Sao Hill Plantation to government forestry revenues has remained relatively stable during the entire period.

**Despite the increasing trend in revenue collection, it is still represents a shortfall of more than half of what should be collected:** Despite the commendable increasing trend in TFS revenue collection over the last 5 years, there is strong reason to believe that revenue shortfalls are at least 50% of the potential available revenue.

A 2009 World Bank study of charcoal dynamics estimated that 1 million tons of charcoal is consumed in Tanzania annually. The revenue due from this amount of charcoal, based on the 2013 royalty rate, should result in revenues of TZS 160 billion/year. The TZS 70 billion that was collected by TFS from all revenue sources in 2013/2014 represent only 43% of the potential charcoal revenues.

Figure 7: Revenue collection by TFS and Sao Hill Forest Reserve for the period 2011 - 2014

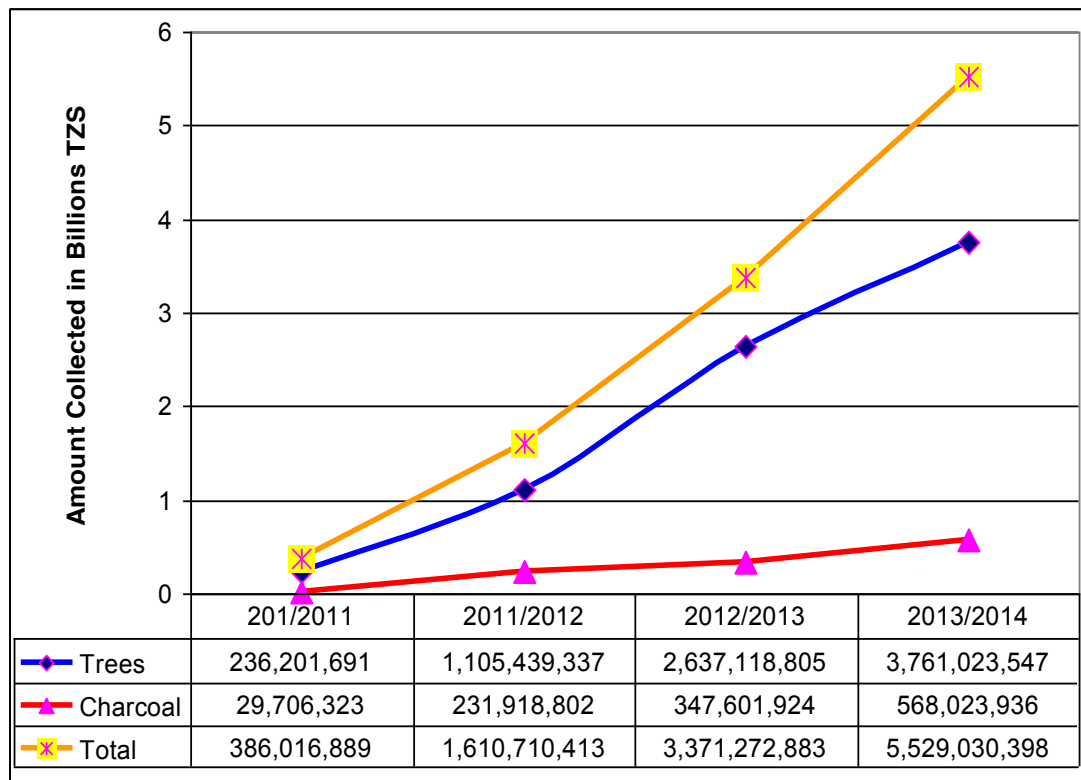


Source: TFS 2014 and Sao Hill Forest Reserve 2014

**The Southern Zone, is one of 7 Zones in Tanzania, it contributes to 8% of all TFS revenues, collection of revenues in this Zone has steadily increased over the last 4 years:** The TEITI Scoping Team was successful in visiting the TFS Southern Zonal Office in Masasi, Mtwara Region. Data provided by the Acting Zonal Manager was analyzed to produce Figure 8. The figure reflects revenue contribution of the 13 districts of the Southern Zone to overall revenue. Figure 8 shows that in southern Tanzania revenue increase has resulted from increases in royalties capture. Royalties have come from logging and charcoal, revenues from both which have increased by more than 10 times. In 2013/2014 the revenue contribution from the Southern Zone was 8% of the national total.



Figure 8: Revenue collection by TFS Southern Zone for the period 2010 - 2014

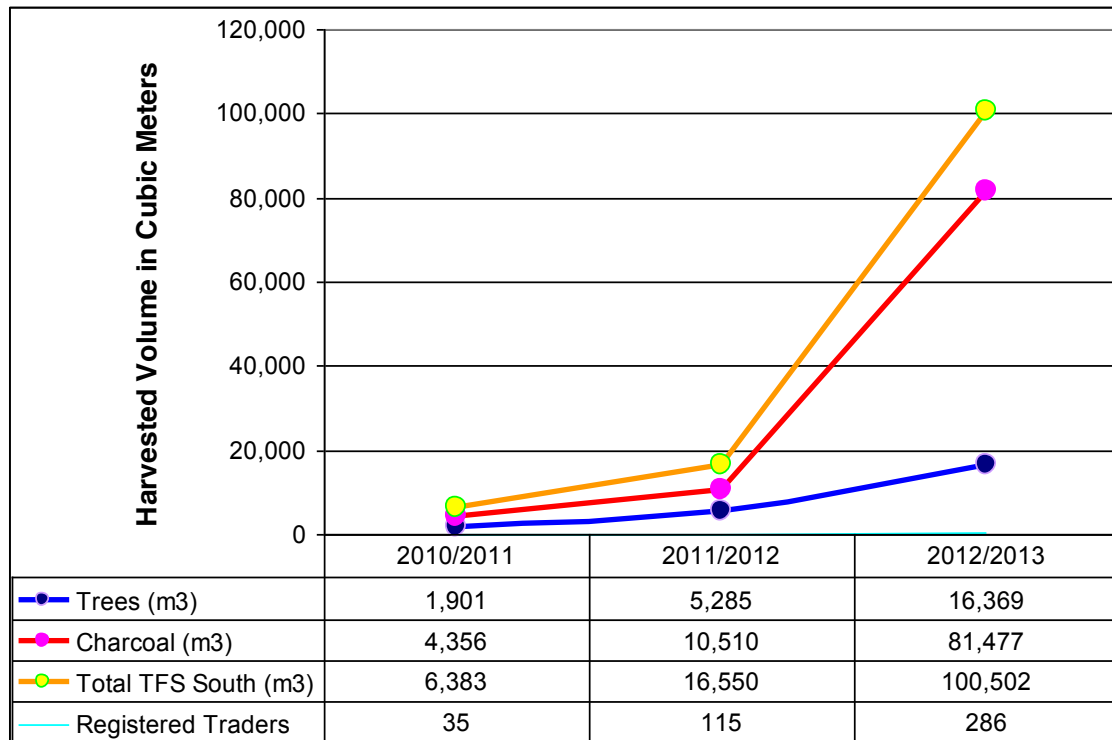


Source: TFS Southern Zone 2014

**On the face of it, it appears that increased revenues have come from increased harvesting but a closer look indicates that revenue capture has at least partially come by the increased registration of traders:** Figure 9 is similar to Figure 8 in that data provided by the Southern Zone of TFS was analyzed to produce this result. In this figure the volume of harvested trees is analyzed to show that the increase in revenue collection over the four year period resulted from the increased harvest of forest products. Logging increased by eight times and charcoal production increased by 20 times over the same period. On the face of it, the increased revenues appear to come from increased harvesting, which could indicate that the trend is unsustainable since it would lead to deforestation. However, a closer look at the data shows that at the same time as harvesting has increased, so too did the registration of forest produce traders. In other words, the actual level of harvesting may have not increased during the period in question, rather, the amount of trade was better captured by a restructured and strengthened TFS.

This is an important observation since the objective of TFS to ensure sustainable forest management. Improved revenue collection is just a vehicle towards achieving the goal of sustainability. Revenue increase from elevated but unsustainable harvesting would be contrary to the goals of the country's forest policy.

Figure 9: Volume of forest products for which revenue was collected by TFS Southern Zone for the period 2011 - 2014



Source: TFS Southern Zone 2014

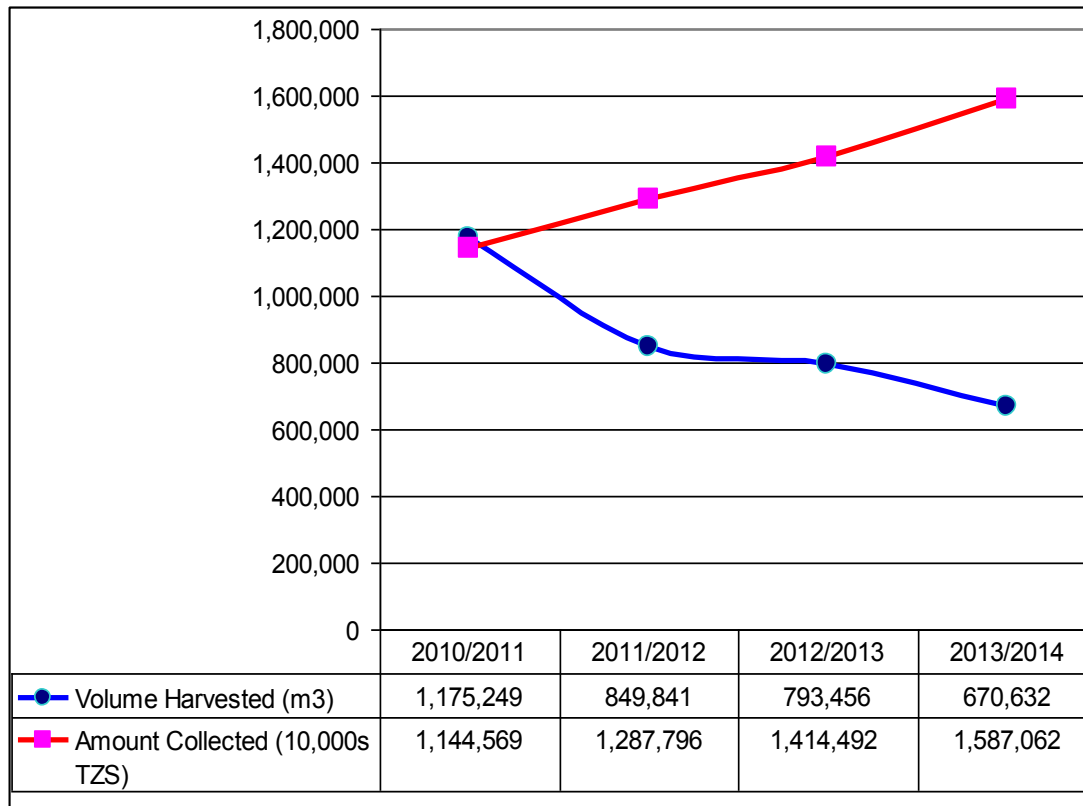
**Eighty percent of the wood harvested is used to make charcoal whereas 90% of royalties are realized from timber, this is an illustration of the “skewed” royalty setting system:** Another interesting observation is made by comparing Figures 8 and 9, where it can be seen that charcoal royalties in the Southern Zone generate only 10% of total revenues but the volume of charcoal that generated these revenues represents more than 80% of the trees harvested. This example illustrates a failure in the royalty system, where charcoal traders are subsidized by a low royalty rate that does not recognize the real cost of charcoal to the economy and the environment. The setting of royalty rates has been a contentious issue in forestry for more than a decade as every increase in royalty rates is met by an outcry by traders and consumers alike. A recommendation to move to a forestry wide auction and tender system, with corresponding high levels of transparency and accountability, has been resisted by the many small and medium sized enterprises in the industry. Small and medium sized forestry enterprises are fearful that a move to an auction system will result in larger forestry companies being able to outbid them for forest resources that are becoming increasingly scarce.

**Revenues collected from Sao Hill Plantation have increased for 4 straight years, although harvested volumes have decreased by more than 40%:** In contrast to the situation in the Southern Zone, the revenue collection trend in Sao Hill Plantation was shown to result from increases in royalty fees rather than increased harvesting. Figure 10 illustrates data provided by the Acting Project Manager for Sao Hill Plantation. The data shows that revenue collection at Sao Hill has increased for the four year period provided. However, different from the Southern Zone, the levels of harvesting at Sao Hill have decreased by 43% over the period in question.

**Harvesting in the past at Sao Hill Plantation has been at unsustainable levels, which has now resulted in a severe supply deficit:** The decrease in harvesting at Sao Hill has been predicted for some time. The marketing study forecast that unless harvesting levels were decreased in Sao Hill from the 1,000,000m<sup>3</sup>/year levels in 2011, there would be a sharp decline in harvestable trees after 2017. This situation has resulted from unsustainable harvesting at Sao Hill for almost ten years. The situation, although improved slightly, continues to persist. The problem stems from an over issuing of harvesting permits beyond the sustainable allowable cut at the plantation.

**TFS has responded to the supply deficit by increasing the royalty rates for softwood timber, nonetheless, the number of allocations continues to be unsustainable:** TFS has responded to the mismatch between supply of raw material and demand for harvesting permits by increasing the royalty rates for softwood trees. Unfortunately, the number of permits continues to be more than the plantation can sustain resulting in a parallel market for harvesting permits in Sao Hill Plantation. It is estimated that more than 500 permit holders, who cannot afford to harvest, instead re-sell their permits to traders who were originally denied a full allocation. The re-sale of harvesting permits is revenue that is significant in value but is not reflected as a legal transaction and is therefore not subject to any taxation.

Figure 10: Volume harvested and Revenue collected for timber harvested from Sao Hill Forest Reserve for the period 2011 - 2014



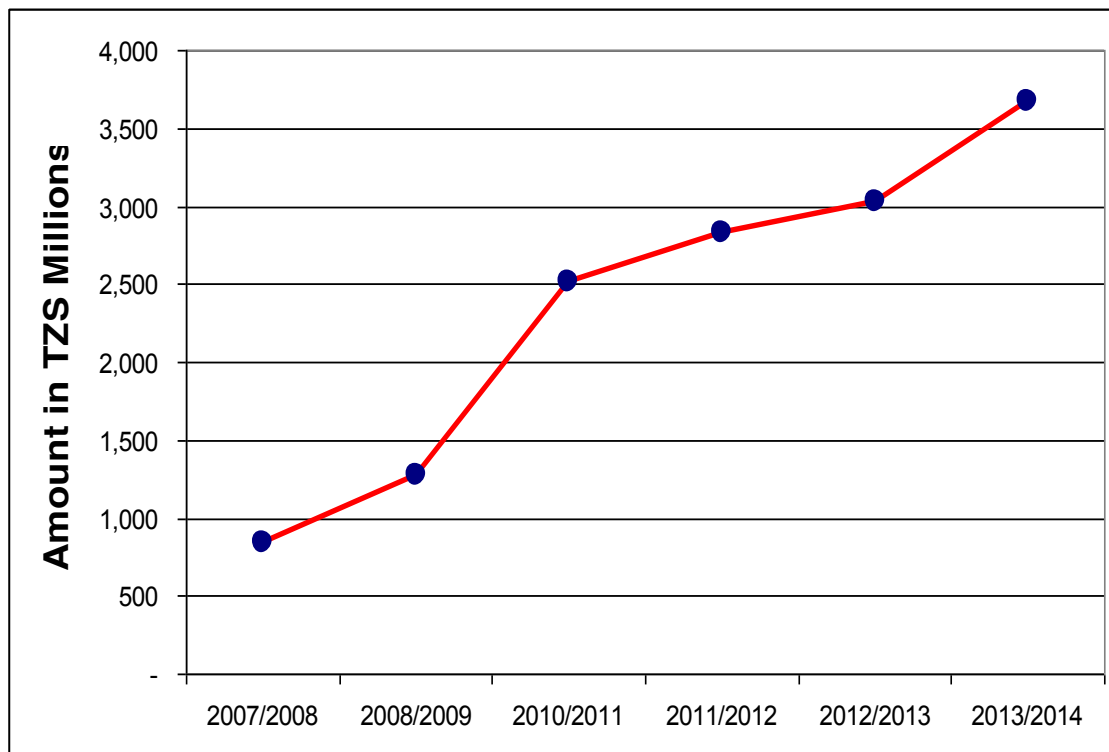
Source: TFS Sao Hill Forest Reserve 2014

**LMDA has increased at Sao Hill Plantation at a lower rate than for royalties and VAT, this is because LMDA is calculated from the number of harvested trees, which has decreased:** Unsurprisingly, although royalty collection at Sao Hill increased by 25% and VAT collection increased by 31% over the four year period in question, LMDA collection increased by only 14%. This low rate of LMDA increase can be explained by the fact it is calculated based on trees harvested. In the case of royalties, the rates were increased at a higher degree than for LMDA. As a result, the LMDA revenues were not as well insulated from the decline in harvestable trees. The impact of this is that LMDA, which is earmarked for silvicultural activities and road maintenance in the plantations, will not be able to fulfill its objectives.

**Revenues collected by TRA from forestry enterprises have also increased steadily over the last 7 years, however, only TZS 3.6 billion was collected in 2013/2014:** Finally, revenues from forest activities are also collected by TRA. Figure 11 reflects data provided by TRA Research Department for the four year period from 2010 – 2014.

TRA has registered a 6 fold increase in revenue collection from forestry enterprises during the period in question. Revenue collected by TRA in 2013/2014 amounted to TZS 3.67 billion, which was collected from just four registered companies. Considering that forestry is estimated to account for 3 - 5% of GDP, it appears that TZS 3.67 billion is a small amount for TRA to collect from this important sector.

Figure 11: Revenues collected by TRA from Forest Enterprises for the period 2008 - 2014

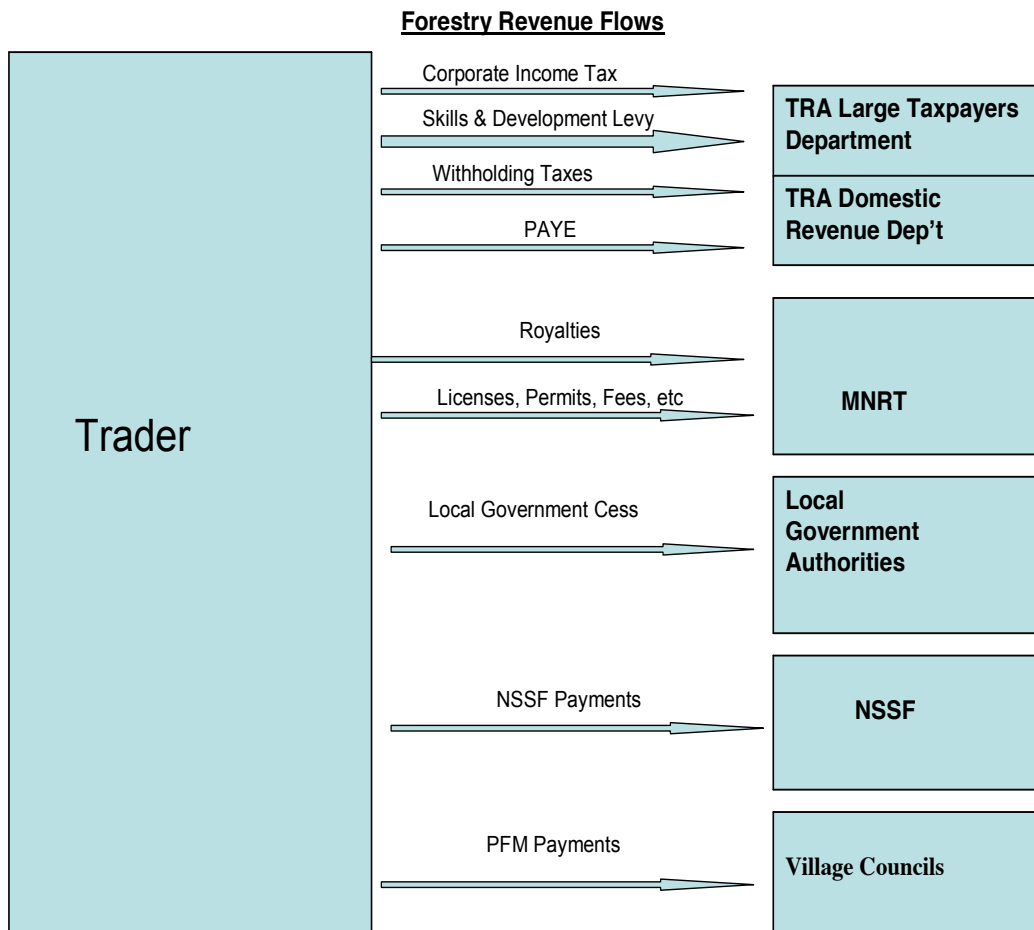


Source: TRA 2014

## 2.4 Payment Flows

**Forest trade and revenue collection in Tanzania reflects an industry that focuses on harvesting raw materials but offers little processing, value added or employment creation:** Figure 12 illustrates the payment flows in the forestry sector in Tanzania. The figure highlights the continued reliance of government on harvesting royalties, which are collected by the government’s forestry agencies. The level of royalties collected from raw materials harvested in the forests is about TZS 70 billion/year. At the same time, revenues from direct and indirect taxes levied on salaries, profits and VAT has remained at low levels not exceeding TZS 3.6 billion/year. This state of affairs is undesirable as it maintains an industry reliance on harvesting of raw materials that are decreasing in availability instead of shifting to an industry that improves harvesting efficiency and value addition through processing that would lead to more employment, greater revenues, more valuable exports and lower rates of deforestation.

Figure 12: Payment flows from taxes and non-tax revenues in Tanzania’s forestry sector



## 2.5 Key challenges of Revenue Collection

A large number of studies have been undertaken which highlight problems of revenue collection in the forestry sector. When comparing performance to goals and principles, the following performance issues arise:

5. The licensing system for natural forests is not effectively controlling use of forest resources; the resource base is becoming degraded, in many instances at either an excessive or unsustainable rate
6. The unsustainable use referred to above is largely illegal and is exacerbated by corruption. Control over natural forestry assets needs strengthening and compliance rates are very low.
7. Because of geography, controlling the exploitation of natural forests will always be challenging; natural forests tend to be large, remote, dispersed, and poorly served by public infrastructure (roads, electricity, etc).
8. Market and institutional arrangements in forestry are “crowded” and characterized by multiple players (central government, local government, the private sector, communities), a poorly developed commercial sector (i.e. many small businesses), and end-users and communities which tend to be poor. The crowded playing field complicates resource management arrangements.

More specifically the challenges confronting revenue collection, transparency and management in the forestry sector can be described as here below:

**Many Forest Reserves in Tanzania are managed without Forest Management Plans (FMP).** According to the report of the National Audit Office<sup>44</sup> (2012) only 4% ( 35 Forest Reserves) of the forests in the country have FMP, the remaining 96% do not have such plans. Similarly, out of the 35 FMPs prepared by DFOs, only 2% (11 Forest Reserves) have been approved by MNRT after meeting the required standards. Most forest reserves with approved management plans are nature reserves but these nature reserves have FMPs to fulfill conditions set by development partners and not as a means to improve management of resources.

The reason for DFOs and Forest Plantation Managers not having FMP and annual forest harvesting plans is a lack of basic information such as the sizes of forest, harvestable stock, and boundaries of forest, which are required in preparing FMPs. Although at a country level the National Forest Monitoring and Assessment (NAFORMA) resulted in producing a national forest map, in most districts no forest inventory has been undertaken for many years. Also, districts are responsible for preparing FMPs but priority in allocating funds for this activity is low and the ministry has not been forthcoming with additional support. In summary it can be concluded that in many cases the sustainable

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<sup>44</sup> National Audit Office. 2012. Performance audit on the management of forest harvesting by the Ministry of Natural Resources and Tourism

level of resource usage for natural forests is not known. Even in cases where resource off-take is controlled it is not clear whether resource usage rates are optimal or efficient

**Forest Harvesting licenses are granted even in the absence of approved FMP.**

Harvesting permits are issued by DFOs and Forest Plantation Managers, even in the absence of FMPs. The Ministry's mechanism of controlling the issuance of license at district level is not effective and as a result, some districts issue harvesting license and transit passes in the absence of an approved FMP and Annual Harvesting Plans. It is also true that the quality of FMPs and AHPs, even where they exist is sometimes low. This is because the plans are developed in the absence of up to date and high resolution data. Harvesting quotas are often determined from a forest officers experience and are not based on actual inventories.

**Supervision by District Forest Officers and Plantation Managers to ensure harvesting is done according to the license is inadequate.** DFOs are supposed to visit designated harvesting sites to measure, verify location and hammer stamp harvested logs and associated stumps. In reality DFOs rarely visit the harvesting areas and mostly do not check the harvested logs at source as required by law. In most cases hammerstamping is done after the harvested logs or timber has been moved to landing sites or sometimes at the DFO's office. Most DFOs have no transport or fuel to facilitate their movements for patrol, and in many cases the traders themselves facilitate the transport of DFOs to reach harvesting locations. Likewise, the Ministry is responsible to fund supervision of forest harvesting in districts and in planted forests. However, MNRT has not allocated funds to cater for these activities. Funds are rarely given to DFOs and are done on ad hoc basis when there is an urgent issue such as forest fire or eviction of people who have encroached on the forest. As TFS has increased its revenues so has it increased deployment of staff to district and zonal offices. This has helped the level of monitoring and supervision of forest trade, especially along roadsides and transportation corridors. Unfortunately, it has left the DFOs in a situation of dependence on others for their operations. As a result, actual forest harvesting remains largely unsupervised.

**Royalties and prices for trees do not appropriately reflect the market prices.**

Currently, forest royalties and other charges are set administratively and do not reflect market price of the products. Therefore, the government continues to lose potential income because the charges are lower than the respective market prices. The trend in Africa has been towards competitive auctioning as a means of generating revenues from the forestry sector. In some countries the move to auctions has coincided with a move to issuing concessions to private operators in forest reserves. An auction system has the advantage of being transparent, where everyone involved in the auction is aware of the transactions and the exchange of revenues. Concessions when properly managed have been shown to lead to improved, professional management of forests by the forest enterprises. Both systems have been resisted in Tanzania by small and medium operators fearful of being crowded out of the industry.



### **System of collecting, analyzing and using of data for improving performance**

Over the last 4 years TFS has improved greatly the collection and management of staff and information. However weaknesses still persist. In general the National Forest and Beekeeping Database (NAFOBEDA) is no longer functional due to a lack of finances to enable collection of data and inadequately trained staff on the use of relevant software. The consultants found that data collection has been taken seriously at the zonal, plantation and district level where information on licenses, traders and revenues were available. Most offices kept disaggregated data in Excel spreadsheets. However, the data remains in a fragmented form where the headquarters do not have information about permits and licenses from the field offices. The fragmented data also means that data analysis in support of forest management is weak and often does not happen at all. There are plans to install a central database that would collect and manage all harvesting information but it has not started working yet.

### **Issues related to improving communications with other law enforcement agencies.**

The NAO report found that it was important for forest officers be trained on procedures for the collection of solid and legally admissible evidence so as to speed up the prosecution of law offenders. On the other hand, in order to facilitate more intensive collaboration with the public forest administration, emphasis should be given on training magistrates as they are not often knowledgeable on the forestry sector and possible consequences of low penalties and fines<sup>45</sup>. During the course of this study it was discovered that the level of cooperation and understanding between forest officers, the police, the courts and the PCCB were mixed at best. Police in particular, were sometimes seen as being un-transparent and even collaborating with illegally operating traders. The PCCB, who were unavailable to meet with the consultants were the subject of many complaints in the field for being harassing while never having brought a case to court.

### **Illegal shipping of forest products**

There is serious illegal shipment of mangrove poles, charcoal and even sawn timber across the channel to Zanzibar and Pemba. The TFS Marine units are too thinly spread to be able to deal with this activity. Most of shipments are done by dhows.

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<sup>45</sup> National Audit Office. 2012. Performance audit on the management of forest harvesting by the Ministry of Natural Resources and Tourism

## 2.6 Forest Companies Operating in Tanzania

There are several thousands of forestry enterprises in Tanzania. The overwhelming majority of which are small and unregistered. Many of these small enterprises are operating either at the harvesting level or in the burning, and retail of charcoal.

**All forest traders are legally obliged to register, however, this is carried out at district offices and there is no central registry of forest businesses:** According to GN 231 of 2007, any forest trader is required to register their business at the Local Government. As a result, obtaining lists of registered forest companies requires a great deal of effort in order to collect this information from dispersed district offices. On the other hand, companies registering to export forest products through the Port of Dar-es-Salaam are obliged to do so at the Ministry of Natural Resources and Tourism headquarters. A list of forest exporting companies was provided by the Export Unit of TFS. This list contained information that included the Tax Identification Numbers of the forest trader. This list when provided to the Tanzania Revenue Authority (TRA) led to information on these companies with regards to their tax payment history and their annual tax returns.

Table 9: Tax returns for Forest Product Exporting Companies for 2013

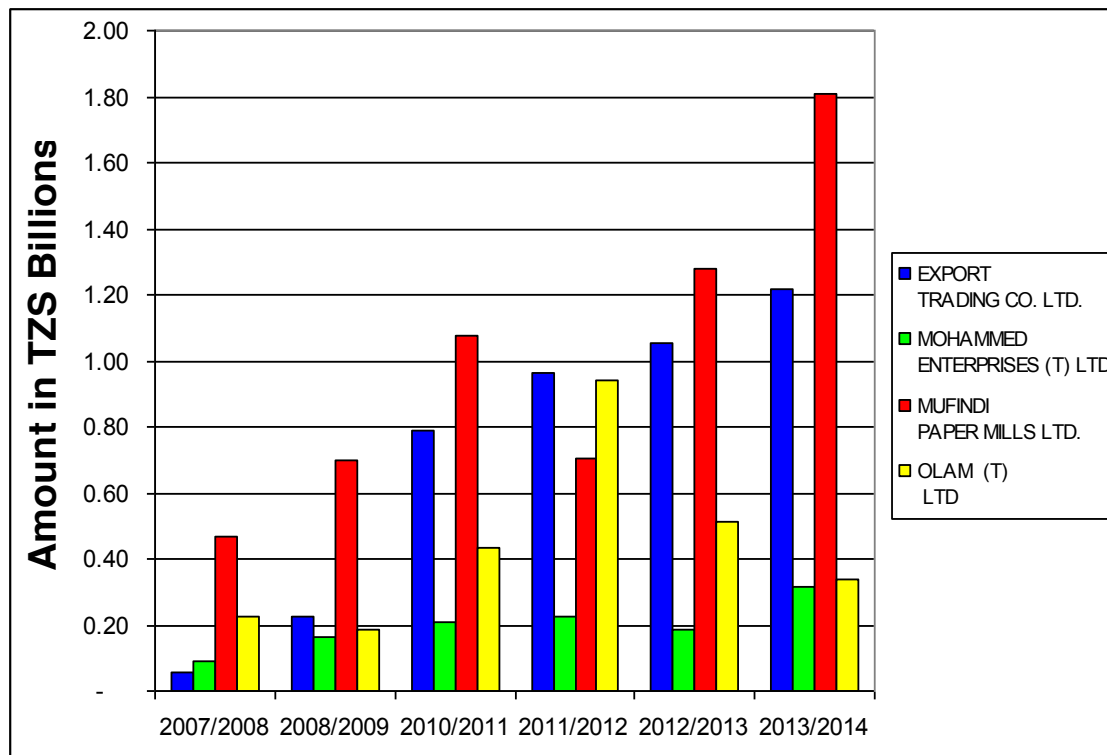
s/n	TAXPAYER NAME	2013
1	EXPORT TRADING CO. LTD.	265,637,114,989.00
2	MOHAMMED ENTERPRISES (T) LTD	178,821,016,904.00
3	OLAM (T) LTD	152,093,382,983.61
4	MUFINDI PAPER MILLS LTD.	52,261,662,238.90
5	ALFA MATCH INDUSTRIES LTD.	9,402,310,030.00
6	TANGANYIKA WATTLE COMPANY LIMITED	6,652,175,253.00
7	FIBREBOARD 2000 LIMITED	4,055,601,920.00
8	SAO HILL INDUSTRIES LIMITED	2,205,582,554.34
9	KIRAN BABLA	1,709,369,239.66
10	Y.G.F. INVESTMENT LIMITED	1,134,201,087.82
11	SPARKLEWAY LIMITED	970,678,166.00
12	INVESTREK LIMITED	925,667,110.86
13	WOODWORLD IMPEX LIMITED	596,959,640.00
14	OASIS YOUNG PLANTS LTD	381,824,854.00
15	MAHMOOD INTERNATIONAL LIMITED.	297,455,957.00
16	SEED SHAMBA LTD.	272,566,629.26

Source: TRA 2014

**All forest exporters are required to register with TFS while providing their TIN. TRA records of TIN registered exporters shows that their combined returns exceeds TZS 3 trillion over the last 6 years:** Table 9 lists the tax returns of the largest forestry exporting companies for the year 2013. The three largest companies listed annual returns of more than TZS 150 billion each. These companies are not all exclusively forestry companies. The three largest companies are involved in several different activities, including agricultural production and food processing. It is important that the forestry activities of these companies be distinguished from their other activities. The remaining companies, all with annual returns greater than TZS 250 million each, are involved in forest harvesting as an essential part of their businesses. In total, there are sixteen companies that participate in forest harvesting and that have tax returns greater than TZS 250 million, as identified by TRA. The full list of forest enterprises that filed tax returns numbers 48 registered companies (see Annex 2).

**TRA records show that only 4 forestry companies have paid taxes in the last 7 years:** Most of the 48 forestry companies that have filed returns have been participating in forest activities for at least the last 7 years. However, when TRA analyzed their records for tax payments, what was found was that only four companies have consistently paid any taxes during the entire period from 2007 to 2014 (see Figure 13). The four companies are Olam, Mohamed Enterprises, Mufindi Paper Mill and Export Trading Company. These are also the four companies with the largest returns for the year 2013. It is not immediately clear why so many forestry companies with substantial tax returns are not being recorded as paying any taxes over such a prolonged period of time. Presumably these companies' forestry activities are relatively labour intensive. Because of this it is assumed that payment of PAYE and SDL by these companies should be significant.

Figure 13: Revenue paid by forest enterprises to TRA for the period 2008 - 2014



Source: TRA 2014

**Several companies with shipments of forest products greater than USD 250,000/year are not filing returns or captured by TRA tax payment records:** In addition to many companies that have not shown payment of taxes, there are several companies that are known to be carrying out forest activities, including exporting through the Port of Dar-es-Salaam, which are not even reflected in the list of tax returns. Table 10 lists companies that have exported forest products through the Port of Dar-es-Salaam and that acquired export certificates from TFS. In Table 10 the companies with the most valuable forestry exports for the Year 2014 are listed, namely cargo valued at not less than USD 250,000. Several of these companies should, but are not reflected, in the TRA data for tax returns.

Table 10: Companies' export data as recorded by TFS for the Year 2014

Name	Volume (m <sup>3</sup> )	Value (USD)	Export Fee (TZS)	Destination	Type
<b>Natural Forest Species - Sawn Timber</b>					
Arizona Enterprises	847	362,394	7,607,000	China	Natural Forest
Floor Solutions Impex Company	702	281,128	6,444,000	China	Natural Forest
Paula Interbusiness Company	451	270,618	4,842,250	China	Natural Forest
Rufiji Sawmill Limited	1,034	323,967	8,961,500	China	Natural Forest
So Best Company Limited	666	266,293	6,992,000	China	Natural Forest
Zoe Investment Limited	1,035	412,573	7,976,000	China	Natural Forest
YGF Investment Limited	1,730	681,933	12,084,480	China, India	Natural Forest, Teak
<b>Sub Total</b>	<b>6,465</b>	<b>2,598,906</b>	<b>54,907,230</b>		
<b>Teak - Sawn Timber</b>					
AJ Quality Timber	923	481,394	7,740,000	India	Teak
Cielmac	5,216	3,479,874	40,622,000	India	Teak
Kilombero Valley Teak Company	6,656	2,439,847	59,668,700	India	Teak
Prime Timber Limited	992	568,093	8,915,000	India, UAE	Teak, Mvule
<b>Sub Total</b>	<b>13,787</b>	<b>6,969,208</b>	<b>116,945,700</b>		
<b>Extracts</b>					
Natural Aromatics Limited		1,240,011	4,171,000	S. Arabia, India, UAE	Sandalwood oil & dust
Tanganyika Wattle Company Limited		1,222,778	6,823,900	India, Egypt	Wattle Extract
<b>Sub Total</b>		<b>2,462,789</b>	<b>10,994,900</b>		
<b>Grand Total</b>	<b>20,252</b>	<b>12,030,903</b>	<b>182,847,830</b>		

Source: TFS 2014

Some of the companies not reflected in the tax returns list include Rufiji Sawmill, So Best Company, Zoe Investment, AJ Quality Timber and Cielmac. Other companies such as Kilombero Valley Teak Company and Kibo Match Group are major forestry companies but neither company has filed returns or shown to be paying any taxes.

Table 11: Major companies allocated harvesting permits from various Government Plantations for 2014

s/n	Name of Company/Trader	Harvest Volume allocated (in m <sup>3</sup> )
1	Mufindi Paper Mill	110,000
2	Mufindi Woodpoles Plant and Timber Ltd.	17,000
3	Mufindi Wood Plantation and Industries Ltd.	13,000
4	Sao Hill Industries Ltd.	10,000
5	Fibreboard (2000) Ltd.	8,412
6	Ihembe Timber Products and Poles Ltd.	5,300
7	Halidi Enterprise Ltd.	4,450
8	Edosama Hardware	4,000
9	Alfa Match Industries	3,000
10	Muongano Sawmill	2,800
11	Tembo Chipboard Ltd.	2,700
12	Kibo Match Group Ltd.	1,250

Source: TFS 2014

**Some companies with large allocations from Sao Hill, worth millions of shillings, are nonetheless not filing returns and are not known to be paying any taxes:** Another chart showing the larger forest companies in Tanzania is listed in Table 11. In this Table the companies that have been allocated large volumes of wood from government plantations are recorded. The largest volume has been allocated to Mufindi Paper Mills, with more than 100,000m<sup>3</sup> from Sao Hill Plantation. The third lowest volume allocated is 2,800m<sup>3</sup> for Muungano Sawmill. This company is not recorded as filing tax returns or paying taxes, although it will harvest more wood than Tembo Chipboard and Kibo Match Group, both of which are listed as filing returns.

## **2.7 Key Civil Society Organizations in the Sector**

The following represent key civil society organizations active in the forestry sector in Tanzania:

### **2.7.1 Tanzania Natural Resources Forum (TNRF)**

TNRF is, an Arusha based, Tanzanian network organisation, bringing together members to change policy and practice in the natural resource sector for the better by a) Building and sharing a knowledge base of practice and b) Strengthening citizen voice and skills for improved natural resource governance. TNRF participated in a study that monitored trade of forest products across the Kenya and Tanzania border<sup>46</sup>. The project was implemented in collaboration with the East African Wild Life Society (EAWLS) and with financial support from the European Union (EU) through the Food and Agriculture Organization of the United Nations (FAO). The study established that there is considerable movement of timber and other forest products across the border between Tanzania and Kenya, and found that timber, poles, charcoal, furniture, wood carvings, paper, and firewood as the main forest products. TNRF is also the host organization for the Tanzania Forestry Working Group (TFWG) that brings together forestry NGOs from across Tanzania to participate in the Mama Mimitu advocacy campaign.

### **2.7.2 Tanzania Forest Conservation Group (TFCG) and MJUMITA**

The Tanzania Forest Conservation Group (TFCG) is a Tanzanian NGO with over 25 years experience in working with issues relating to forest conservation in Tanzania. Through TFCG's five programmes: advocacy, participatory forest management, environmental education, community development and research, TFCG has succeeded in rolling out innovative and high-impact solutions to the challenges facing Tanzania's forests and the people that depend on them. In particular, TFCG has been active in advocating for improved forest management and reduced deforestation throughout this period. TFCG has been at the forefront of national awareness campaigns on forest conservation including the implementation of the information, education and communication component of the recent UNDP / GEF Conservation and Management of the Eastern Arc Management project and the development of the national communication strategy for the national forest programme and the participatory forest management programme.

TFCG and MJUMITA (Community Forest Conservation Network of Tanzania) has also been active in promoting practical solutions to reduce deforestation and carbon emissions including participatory forest management, improved land use, improved agriculture, fuel

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<sup>46</sup> East African Wild Life Society (EAWLS) . 2012. The trade in forest products across Tanzania and Kenya

efficient stoves, and tree planting as part of the 5 year project known as Making REDD Work for Communities and Forest Conservation in Tanzania and funded by the Government of Norway.

In the past few years (2011 to 2013) TFCG and MJUMITA (Community Forest Conservation Network of Tanzania) got funding from DFID through the Accountability Tanzania (Act) Programme to implement a project known as Forest Justice in Tanzania which was aimed at improving governance in the forestry sector. The main purpose of the project was to promote good governance and improve accountability in the forest sector. Some of the strategies to achieve the project objectives included monitoring of forest governance and forest condition, Research, analysis and communication- which practically looked at the current forest sector revenues and budgets while comparing to the sector expenditures into the forests in relation to the forest conditions....., Promotion of law enforcement and promoting FSC and REDD standards ([www.tfcg.or.tz](http://www.tfcg.or.tz)).

### **2.7.3 Mpingo Conservation and Development Initiative (MCDI)**

The Mpingo Conservation and Development Initiative (MCDI) is a local Tanzanian-registered NGO that supports rural communities to make money from managing their local forests by way of sustainable timber sales, and potentially from future carbon offsets derived from fire management under MCDI's pilot REDD project. MCDI is a service provider and facilitator for Participatory Forest Management where it can be leveraged for the commercial benefit of the communities it supports. MCDI's work is therefore mostly focused in south-eastern Tanzania where forest cover and timber stocks remain relatively high compared to some parts of the country. By June 2014 communities supported by MCDI had sold over USD \$130,000 worth of timber, with sales increasing exponentially over the latter part of that period such that sales in the latter half of 2014 alone may be double that total. To help market this ethically sourced timber, MCDI has obtained the only FSC certificate for community-managed natural forests in the whole of Africa.

MCDI's principle focus and expertise is as a service provider and facilitator to communities it actively supports. We generally only engage in advocacy where it directly relates to our primary goals. Thus we are a leading member of the Mama Mitsu Campaign coalition because continued illegal logging reduces the possible gains for communities and drives timber prices lower, and because the campaign promotes PFM as part of the solution. We have also lobbied about the benefits of FSC certification, and for government recognition of the higher standards it requires.

Governance, accountability and transparency are key issues for us in so far as they relate to how communities manage the revenue they earn from PFM: we believe for PFM to have popular, democratic legitimacy in these communities, the rules of forest management must be supported by the great majority of community members, and the benefits to be widely felt throughout the community. Communities have to pay a variety



of taxes on the income they derive from PFM, and in theory this should drive demand for better services and accountability from the government.

#### **2.7.4 TRAFFIC**

TRAFFIC, is a strategic alliance of WWF and IUCN and is the wildlife trade monitoring network, a non-governmental organization working globally on trade in wild animals and plants. TRAFFIC specializes in investigating and analysing wildlife and forest trade trends, patterns, impacts and drivers to provide a knowledge base on trade in wild animals and plants; supporting action by governments to enforce effective policies and laws; providing advice to the private sector on effective approaches to ensure that sourcing of wildlife and plants uses sustainability standards and best practice; and developing insight into consumer attitudes and purchasing motivation and guiding the design of effective communication interventions aimed to dissuade purchasing of illicit wildlife and plant goods. The Dar-es-Salaam office of TRAFFIC East and Southern Africa carried out a landmark study in 2007 on the governance shortfalls associated with a logging boom in southern Tanzania. The conclusions of the report have been quoted widely, inside and outside of government, and many of its recommendations have been implemented by government and other stakeholders.

# **3. Integrating the Forestry Sector into EITI Implementation in Tanzania**

## **3.1 Rationale for Integrating Forestry**

Forestry is a key element of the Tanzanian economy, contributing to 4% of GDP and at least 3 million person years of employment. However, it remains a fragmented and subsistence level activity for many actors. There is reason to believe that forestry's potential for employment, revenue generation and export earnings could be greatly improved if the sector was better managed.

Similar to oil, gas and mining, an EITI process in forestry promises to bring much needed transparency in revenue collection and the sector's management. Problems that will be highlighted include the weak collection of data that leads to over harvesting, the poor coordination amongst government agencies, the mismatch between export permits, fees and shipping data, the lack of alignment between the number of registered actors and the few companies that are recorded as paying taxes.

## **3.2 Stakeholders' Views**

The stakeholders met during the conduct of the assignment largely supported the possibility of including forestry revenues in EITI reporting in Tanzania. As the agency responsible for revenue collection from the forestry sector, The TFS expressed interest in joining the TEITI Multi-stakeholder Group. However, it highlighted the difficulties of collecting payment data from over 3000 saw millers, given the absence of centralized electronic database. It is suggested focusing on large companies and gradually incorporating saw millers.

One of the extractive companies met in the field, namely Green Resources, was not aware of the EITI process and requested more information. Another extractive company, Mufindi Mill Paper, was very aware and expressed interest in joining the EITI process in Tanzania. It noted that transparency would contribute to the sustainability sector. It also noted that transparency would contribute to maximizing value addition by ensuring that a same tree is distributed and utilized by energy, pulp, lumber and plywood industries.

Dealers were of the view that the EITI would bring transparency into the payments to the governments. They noted that when they are transporting their goods, they often pay same taxes in different locations. They were unsure if these taxes (which termed as double taxation) all ended up in government revenues. Most sawmill owners were concerned by the large and unmanageable numbers of small and unregulated pitsawyers operating in the industry. Many complained of the 800 permits allocated at Sao Hill Plantation, although past experience has shown that no more than 200 will be in a position to actually harvest. They questioned why TFS continued to offer so many

harvesting permits, even as the raw materials were declining. Sawmill owners who have invested in machinery and staff development want a clearer permit allocation process. Because the sawmill owners have invested in the forestry industry they feel that they should receive first priority in allocation from plantations and natural forests. Sawmill owners claim that if they cannot make plans to increase efficiency and increase hiring without greater security of raw material.

Traders throughout the sector were concerned by the arbitrary nature of royalty setting. Many traders requested a more transparent process of price setting. However, only the larger operators have expressed interest in an auction system, which is increasingly the international standard. Many smaller operators have ambivalent feelings about increased auctioneering, since they believe it will crowd them out of the industry due to their small levels of working capital.

Civil society is strongly in favour of including forestry in EITI reporting in Tanzania. They believe that the EITI report offers an opportunity to engage policy dialogue on the governance of the forestry sector. Civil society suggested that the EITI report should be prepared in a manner that allows the average citizen to digest data on revenue payments and receipts from the sector. They also recommended that the EITI report on forestry should not be combined with that on oil, gas and mining so that key data and messages on forestry are not lost. In particular, they are concerned the possibility of the substantial revenues from oil, gas and mining creating a picture where revenue collection from the forestry sector seem large.

### **3.3 Expanding the TEITI Multi-Stakeholder Group**

The stakeholders in the forestry sector can be incorporated into the current TEITI Multi-stakeholder Group. Establishing a separate TEITI Multi-stakeholder Group for the forestry sector will cause duplication of efforts such as outreach and dissemination activities. In addition, it would be costly and would require a budget similar to the annual current TEITI work-plan of one million dollars. The study therefore recommends the incorporation of relevant government agencies, forestry companies and civil society into the existing TEITI Multi-stakeholder Group. This approach would be most cost effective, as the only key cost will be that of producing the report reconciling company payments and government revenues from the forestry sector.

### **3.4 Incorporating Government Agencies**

As noted above, different government agencies are involved in the management of the forestry sector in Tanzania. Given its role in the collection of revenues from the sector, TFS is most suited in representing the interest of the government in the forestry sector. It is therefore recommended that the Ministry of Energy and Minerals, which has the overall responsibility of managing the EITI process in Tanzania, invite TFS to join the TEITI Multi-stakeholder Group.

### **3.5 Incorporating Forestry Companies**

Extractive companies active in the forestry sector are mainly concentrated in Tanzania's Southern Highlands. They include Mufindi Paper Mill and Green Resources Limited. Unlike oil, gas and mining companies, forestry companies in Tanzania do not have an industry association such as the Oil and Gas Association of Tanzania and the Tanzania Chamber of Minerals and Energy. In this context, a practical way of incorporating forestry companies into the EITI process is for TEITI and TFS to convene a meeting for key companies. The purpose of the meeting would be to select one company that will represent forestry companies in the TEITI Multi-stakeholder Group.

### **3.6 Incorporating Civil Society**

Civil Society is crucial to the management of natural resources, including forestry. They advocate for good policies and better management of natural resources. They play an oversight role in the management of natural resources for the benefit of the wider public. They facilitate information-sharing and outreach to the public in the management of natural resources.

In the current TEITI Multi-stakeholder Group, Tanzania has a number of civil society groups which are familiar with providing an oversight role in the mining and gas sectors. These civil society groups do not have the knowledge or the capacity to monitor the forestry sector. It is therefore recommended that TEITI include one civil society from the forestry sector in the EITI process in Tanzania.

The selection of such a civil society group must be made by civil society organizations working in the forestry sector. TEITI should facilitate in the organization of a meeting where a credible civil society can be selected to represent the interest of its constituency in the TEITI Multi-stakeholder Group.

### **3.7 Preparing the EITI Report on Forestry**

Preparing EITI report on the forestry sector in Tanzania is feasible. Data on company payments and government receipts from the sector dating back to the 2010/11 fiscal year is readily available. In the event that the TEITI Multi-stakeholder Group decides to incorporate forestry into the EITI process in Tanzania, it may consider commissioning an EITI report that covers the same fiscal year as those covering oil, gas and mining.

The forestry sector in Tanzania has a number of payments, some small and some large. The following payments constitute material: royalties, permits and license fees paid to MNRT as well as levies to local governments. It is therefore recommended that the TEITI report focus on these payments as well as the regular company taxes collected by TRA.

The task of preparing an EITI report that covers the entire forestry sector is daunting. Players are many and majority is small operators/saw millers whose data on payments is not available in a centralized database. It is therefore recommended that the EITI report start with a gradual approach of covering large companies and exporters and later including smaller players if desired.

Concerning the format of the EITI report, the TEITI Multi-stakeholder Group may consider two options. The first option is to produce a stand-alone report on forestry, as recommended by civil society. This option would be most suitable in the event the TEITI Multi-stakeholder Group decides to produce an EITI report on forestry starting from 2010/2011 fiscal year. The second option is to continue the current practice of producing a single EITI report and including forestry as part of it. This option would work if the TEITI Multi-stakeholder decides to produce a report on forestry revenues that covers the same fiscal year as those of oil, gas and mining. In the event that the TEITI Multi-stakeholder decides this option, it should ensure that the EITI report dedicates a chapter on forestry revenues.

### **3.8 Reporting Template**

We recommend a stand-alone reporting template for EITI reporting on the forestry sector in Tanzania. Given the unique nature of forestry, we do not recommend combining the reporting template with those of reporting on oil, gas and mining. We propose the attached reporting template (see Annex 3), which covers major payments to the government, production and export statistics, as well as social expenditures.

### **3.9 Meeting EITI Requirements**

As noted earlier, the forestry sector in Tanzania is fragmented. As such, it does not meet a number of EITI requirements as a sector. For instance, it does not have a centralized and electronic database where all licenses can be accessed. However, the existing EITI process in Tanzania can compensate for some of the shortcomings of meeting EITI requirements. In Annex 4, we provide an assessment of meeting EITI requirements and note where the existing EITI process in Tanzania compensates.

## 4. Conclusion and Recommendations

Based on the foregoing analysis and observations, the scoping study draws the following key conclusions:

- Data on production, exports and payments exist, although very fragmented.
- The forestry sector is a key pillar of the Tanzanian economy, contributing 4% of the GDP.
- More than 80 companies are registered to export. 40 companies have filed tax returns for a total greater than 3 trillion Shillings over the last 6 years. Of all companies, TRA has identified only 4 forestry companies in their tax records.
- Twelve companies dominate harvesting, trade and exports of forestry products in Tanzania.
- Shipments to Kenya are not sufficiently captured in MNRT export data.
- Sustainability is a major challenge in the sector. More than 800 companies and individuals are registered to harvest in Sao Hill plantation, which is difficult to monitor and protect forestry resources.
- Capacity-building, particularly in data management and storage at TFS, is very crucial to the management and the sustainability of the sector.
- Coordination among key government agencies responsible for law enforcement and revenue collection from the forestry sector is lacking.
- The sector will benefit from improved governance, and the EITI will add value, as it will help increase transparency around revenues to the government.
- Stakeholders from the government, industry and civil society support the inclusion of forestry in EITI implementation in Tanzania.
- Including forestry in EITI in Tanzania is cost effective in that creating a new structure for implementation will not be necessary.

The scoping study brings forward the following key recommendations:

- Recommendation 1:** Incorporate forestry into EITI implementation in Tanzania, with a view to increasing revenues to the government, improving the governance of the sector, and enhancing sustainability.
- Recommendation 2:** Produce an EITI report that starts with payments made by major companies in the sector. Small players should be incorporated into EITI reporting in later stages.
- Recommendation 3:** Expand the current TEITI Multi-stakeholder Group to include TFS, one company and one civil society organization from the forestry sector.
- Recommendation 4:** Build the capacity of TFS in data management and storage.
- Recommendation 5:** Enhance the coordination of government agencies responsible for revenue collection from the forestry sector.

### ANNEX 1: FOREST PRODUCTS EXPORTING COMPANIES (2010 - 2012)

S/N	INDV/COMPANY NAME	REG. NO.	TIN. NO.	PHYSICAL ADDRESS	MAIL	DISTRICT	PRODUCT FOR EXPORT/IMPORT
1	ABDULLAH MKILINDI	29388	112-760-970	HIMO	BOX 42, MOSHI	MOSHI	SAWN TIMBER
2	AFRICAN HARDWOOD EXPORTS CO.COMPANY	29381		KIGOGO RD	BOX 214, DSM	ILALA	SAWN TIMBER
3	AFRICAN PALM CO. LTD	29356	108-139-323	PAMBA RD	BOX 10221 DSM	ILALA	PALM LEAVES
4	AFROSCAN INTERNATIONAL LTD	29355		SINZA	BOX 1959 DSM	KINONDONI	CINCHONA BARKS
5	AGROVET ENTERPRISES (T) LTD	29359	101-726-495	UBUNGO	BOX 76460 DSM	KINONDONI	SAWN TIMBER
6	ARANTCO TRADERS	31366	110 434 960	Pines and Cypress			
7	ARIZONA ENTERPRISES	36564	100-368-900	MBAGALA	BOX 404655 DSM	TEMEKE	SAWN TIMBER
8	ATHI-WATT ENTERPRISES	36559	108-665-860	NJOMBE	BOX 12 IRINGA	IRINGA	CINCHONA BARKS
9	CIELMAC LTD	31375	100 147 237	Teak na pangapanga			
10	COAST CONSORTIUM LTD	37384	100 159 694	Muhuhu oil			
11	COAST WATER PROJECT	36575	104-514-413	MUHEZA	BOX 143529 DSM	KINONDONI	SMOKED RUBBER
12	CQCR GROUP CO. LTD	29383		TEMEKE	BOX 4757 DSM	TEMEKE	SAWN TIMBER
13	DIAMOND GATES	29373		KIPAWA	BOX 76143, DSM	ILALA	SAWN TIMBER
14	ECOPHILIC CO. LTD	29380		WARIOBA	BOX 214, DSM	KINONDONI	SAWN TIMBER
15	EPIC PROPERTIES LTD	29360		MBEZI BEACH	BOX 35672 DSM	KINONDONI	SAWN TIMBER
16	EQUATOR NATURAL ESSENTIAL OILS LTD	36597	106-167-664	KUNDUCHI SALASALA	BOX 16510 DSM	KINONDONI	SANDALWOOD OIL EXP/IMP. SANDALWOOD



17	EXPORT TRADING CO. LTD	29377	100-104-571	SAMORA AVENUE	BOX 10295, DSM	ILALA	GUMS
18	FLOOR SOLUTION IMPEX (T) LTD	29352	110-742-510	KARIAKOO	BOX 78039 DSM	ILALA	SAWN TIMBER
19	GREENWORLD GENERAL TRADERS	36595	100-864-231	KUNDUCHI SALASALA	BOX 67401 DSM	KINONDONI	CLARINET SETS
20	HAIKAELI ELIETH MNZAVA	36592	108-652-659	SAKINA	BOX 681 ARUSHA	ARUSHA	SAWN TIMBER
21	HAWIES INVESTMENTS Co LTD	36579	107-702-601	SINZA	BOX 4155 DSM	KINONDONI	SAWN TIMBER
22	INDO AFRICAN ESSENTIAL OILS LTD	36586	102-928-229	MBOZI RD	BOX 80245 DSM	TEMEKE	SANDALWOOD OIL EXP/IMP. SANDALWOOD
23	INVESTREK LIMITED	36577	112-679-782	VINGUNGUTI	BOX 816 DSM	ILALA	GUMS
24	JD INTERNATIONAL	31384	106 673 381	Teak			
25	JOSEPHINE NNKO	36589	104-358-284	ARUSHA	BOX 17010 ARUSHA	ARUSHA	SAWN TIMBER
26	KILOMBERO VALLEY TEAK COMPANY	36568	101-462-439	KURASINI	BOX 31156 DSM	TEMEKE	SAWN TIMBER
27	KINGLAND EXPORT LTD	29363	106-757-364	TANGA	BOX 5212 DSM		SAWN TIMBER
28	KWANZA COLLECTION CO. LTD	29353	100-447-878	BIBI TITI MOHD	BOX 75870 DSM	ILALA	CARVINGS
29	KYALLA TRADERS LIMITED	36590	111-251-797	TARAKEA ROMBO	BOX 110 ROMBO	ROMBO	SAWN TIMBER
30	LEO AGRIFOREST (T) LTD	36576	104-407-633	SINZA UZURI	BOX 6527 DSM	KINONDONI	SAWN TIMBER/CARVINGS
31	LION WATTLE CO. (T) LTD	36585	100-240-645	LUSHOTO	BOX 18, LUSHOTO	TANGA	WATTLE EXTRACT
32	LIRDO (LOIBORSOIT INTERGRATED RURAL DEV. ORGANISATION)	29371	109-706-876	LOIBORSOIT 'A'	BOX 12696, ARUSHA	SIMANJIRO	DRIED FRUITS
33	MAHMOOD INTERNATIONAL LTD	36568	100-186-756	KIWALANI	BOX 5728 DSM	ILALA	SAWN TIMBER
34	MAIMUNA M. MOHAMED	36582		SAKINA	BOX 10017	ARUSHA	SAWN TIMBER

					ARUSHA		
35	MALAIKA HOLIDAY VILLAS CO. LTD	36583		MBAGALA	BOX 12604 DSM	TEMEKE	SAWN TIMBER
36	MALENGA TRADERS	31474	113 728 280	Teak na Tondolo.			
37	MARIGOLD LTD	31447	112 904 239	Tondolo, Cedrella			
38	MBELWA MOCHIWA MNUNGWANA	29379	103-202-388	MWENGE	BOX 31156 DSM	KINONDONI	CARVINGS
39	MICCO IMPORT & EXPORT LTD	36574		MBAGALA	BOX 78943 DSM	TEMEKE	SAWN TIMBER
40	MINGOYO SAWMILL	29357	103-100-887	MWENGE	BOX 70477 DSM	KINONDONI	CLARINET SETS
41	MOHAMED ENTERPRISES LTD	29374	100-181-762	PLOT No. 2006-793, MORO RD	BOX 20660, DSM	KINONDONI	GUMS
42	MOHAMED RAFIQ SAMEJA	29375	109-011-916	MINGOYO	BOX 264 DSM	LINDI	CLARINET SETS
43	MPUNDU TRADING CO. LTD	36573	107-758-348	TARAKEA ROMBO	BOX TARAKEA	ROMBO	SAWN TIMBER
44	MRIDHUL EXPORTS LTD	31433	109-108-596				
45	MTUA SAWMILL	36599	100-712-563	NACHINGWEA	BOX 510 MTWARA	MTWARA	CLARINET SETS
46	MUFA DISTRIBOTORS	#REF!		KINYEREZI	BOX 22426 DSM	ILALA	SAWN TIMBER
47	MUFINDI WOOD POLES, PLANT & TIMBER LTD	36584	101-500-365	MAFINGA	BOX 198 MAFINGA	IRINGA	SAWN TIMBER
48	MUGYA COMPANY	36585		MBAGALA	BOX 100012 DSM	TEMEKE	SAWN TIMBER
49	MUWA TRADING (T) LTD	36583	105-822-842	MWENGE	BOX 5922 DSM	KINONDONI	TREATED POLES
50	NANG'ONJI GENERAL ENTERPRISES	31417	104 173 594	Pine, Cypress and Eucalyptus.			
51	NATURAL AROMATICS LTD	29375		TABATA	BOX 3484 DSM	ILALA	SANDALWOOD OIL EXP/IMP. SANDALWOOD
52	NGASEKELI CO. LTD	36588	108-821-698	ARUSHA	BOX 17010 ARUSHA	ARUSHA	SAWN TIMBER

53	NICHOLUS L. KAALE	31477	108 710 314	Teak			
54	NOVA ASSOCIATES	36571	100-225-204	CHANG'OMBE	BOX 22642 DSM	TEMEKE	CINCHONA BARKS
55	NOVEL DEVELOPMENT (T) LTD	29376	105-341-169	KISEREWENDE MOROGORO	BOX 6099, MOROGORO	MOROGORO	SAWN TIMBER
56	OASIS YOUNG PLANTS LTD	36557	106-569-053	MAILI SITA	BOX 641 MOSHI	MOSHI	FLOWERS
57	OLAM (T) LTD	36565	100-103-745	UPANGA	BOX 71062 DSM	KINONDONI	SAWN TIMBER
58	OM FARM N'CEUTICALS LTD	36598	105-752-075	SAMORA AVENUE	BOX 78519 DSM	ILALA	CINCHONA BARKS
59	P& P SHARE TRADING CO. LTD	36591	108-848-503	UBUNGO URAFIKI	BOX 55122 DSM	KINONDONI	SAWN TIMBER
60	PAULA INTERBUSINESS LTD	31394	106-425-337	TABATA	BOX 16323 DSM	ILALA	SAWN TIMBER
61	PRIME TIMBER LTD	36558	102-155-602	MANDELA RD	BOX 5551 DSM	ILALA	SAWN TIMBER
62	RABAHA INVESTMENT LIMITED	29390	112-476-970	MWEMBECHAI	BOX 79905 DSM	KINONDONI	SAWN TIMBER
63	RENU EXIM LTD	31399	111 362 246	Teak			
64	SANDAL WOOD INDUSTRIES LTD	31378	100 160 250	Mpingo, Teak.			
65	SAO HILL INDUSTRIES LTD	48233	100-122-219	MAKUBURI		ILALA	SAWN TIMBER
66	SAS TRADERS	29382		TEMEKE	BOX 7321 DSM	TEMEKE	SAWN TIMBER
67	SEED SHAMBA LTD	29365	101-656-292	MWENGE	BOX 31520 DSM	KINONDONI	FURNITURE
68	SEGHAN WOOD INDUSTRIES	31442	110 105 827	Teak, Cedrella			
69	SIERRA LIMITED	36563	102-993-055	BABATI	BOX 330 DSM	MANYARA	SANDALWOOD OIL EXP/IMP. SANDALWOOD
70	SPARKLEWAY LTD	36594	107-888-594	SAMORA AVENUE	BOX 45593 DSM	ILALA	SAWN TIMBER
71	SUN BIOFUELS (T) LTD	36580	104-627-803	MASAKI	BOX 6615 DSM	KINONDONI	GUMS

72	SUPPLIES GEN. ENTERPRISES	29367	109-706-876	HIMO	BOX 261, MOSHI	MOSHI	SAWN TIMBER
73	SUZA TIMBER SUPPLIES	36562	103-564-069	KIWALANI	BOX 20869 DSM	ILALA	SAWN TIMBER
74	TABECO INTERNATIONAL LTD	36596		TABATA	BOX 72712 DSM	ILALA	CINCHONA BARKS
75	TAKRIM CARGO TRANSPORTERS	37304	100 418 061	Leucaena withies			
76	TAKSIM TRADE LINK	37448	110 438 281		Hajasafirisha		
77	TANAK INTERNATIONAL LTD	29354	114-024-082	TEMEKE SAZA RD	BOX 21697 DSM	TEMEKE	SAWN TIMBER
78	TANGA TEAK WOOD CO LTD	31360	110 540 906	Teak			
79	TANGANYIKA WATTLE CO. LTD	36581	100-185-490	MBAGALA	BOX 1807 DSM	TEMEKE	SAWN TIMBER
80	TIMBER TONE (T) LD	29351	106-906-009	MANG'ULA	BOX 71 MANGU'LA	MOROGORO	SAWN TIMBER
81	TRADEWINGS INTERNATIONAL	29368	114-849-596	MOSHI	BOX 124, MOSHI	MOSHI	SAWN TIMBER
82	UNGO CRAFT LINK (T) LTD	36593	107-637-826	TEMEKE	BOX 32810 DSM		CARVINGS
83	UROKI GLOBAL SERVICES CO.	29368	101-784-053	UBUNGO	BOX 513, DSM	KINONDONI	SAWN TIMBER
84	VICTORIA INTERNATIONAL CO. LTD	29370		KAWAWE	BOX 14872, DSM	KINONDONI	SAWN TIMBER
85	VICTORIA INTERNATIONAL CO. LTD	29370		KAWAWE	BOX 14872, DSM	KINONDONI	SAWN TIMBER
86	WOODWORLD IMPEX LTD	31413	108 077 026	Teak, Tondolo, Mvule, Mkulungu, Mzungu			
87	YGF INVESTMENTS LTD	36587	103-867-347	MBAGALA	BOX 104499 DSM	TEMEKE	SAWN TIMBER
88	YURI INVESTMENT	29378	104-089-585	LUMUMBA STREET	BOX 76535, DSM	ILALA	SAWN TIMBER

## Annex 2: Forest Companies Filing TRA Returns 2006 - 2013

s/n	TAXPAYER_NAME	Grand Total TRA Annual Returns 2006 - 2013
1	ALFA MATCH INDUSTRIES LTD.	46,150,893,073.00
2	COASTAL CONSORTUIM LIMITED	321,037,477.50
3	CONSTANTINE BUHILYA	642,966,208.00
4	EXPORT TRADING CO. LTD.	1,451,658,545,332.00
5	FIBREBOARD 2000 LIMITED	21,271,638,028.00
6	INDO AFRICAN ESSENTIAL OILS LIMITED	512,295,375.00
7	INVESTREK LIMITED	1,479,346,642.86
8	JD INTERNATIONAL (T) LIMITED	513,555,671.45
9	KIBO MATCH GROUP LIMITED	11,260,567,681.55
10	KILOMBERO VALLEY TEAK COMPANY LIMITED	8,694,484,482.00
11	KIRAN BABLA	8,612,981,580.07
12	KWANZA COLLECTION CO. LTD.	21,584,519,223.29
13	LEO MARKETING TANZANIA LIMITED	-
14	LION WATTLE COMPANY (T) LIMITED	1,386,311,091.00
15	MAHMOOD INTERNATIONAL LIMITED.	2,260,759,492.77
16	MALENGA TRADERS LIMITED	40,223,820.00
17	MANITO IMPEX LIMITED	15,400,000.00
18	MINGOYO SAWMILL CO LTD.	-
19	MOHAMMED ENTERPRISES (T) LTD	1,174,814,190,607.54
20	MUFINDI PAPER MILLS LTD.	294,838,433,027.18
21	MUFINDI WOOD PLANTATION AND INDUSTRIES LTD.	1,132,376,348.00

22	MUFINDI WOODPOLES PLANT AND TIMBER LTD.	7,530,344,501.00
23	OASIS YOUNG PLANTS LTD	1,271,779,184.00
24	OLAM (T) LTD	857,623,729,953.03
25	PAULA INTERBUSINESS CO. LTD.	654,886,608.01
26	RENU EXIM LTD	13,151,412.00
27	SANDALI WOOD INDUSTRIES LTD.	727,510,811.73
28	SAO HILL INDUSTRIES LIMITED	17,525,514,381.01
29	SEED SHAMBA LTD.	1,632,769,197.96
30	SENGHANI WOOD INDUSTRIES TANZANIA LIMITED.	1,238,472,964.86
31	SIERRA LIMITED	1,318,414,880.00
32	SPARKLEWAY LIMITED	2,941,600,387.00
33	SUN BIOFUELS (T) LTD	-
34	TAKRIM CARGO & TRANSPORT (T) LIMITED	1,926,919,595.00
35	TANAK INTERNATIONAL LIMITED	48,373,352.00
36	TANGA TEAK WOOD CO LIMITED	116,653,346.00
37	TANGANYIKA WATTLE COMPANY LIMITED	23,368,344,479.00
38	TEMBO CHIPBOARDS LIMITED	1,662,890,928.50
39	TIMBER TONE ( T ) LIMITED	230,768,593.69
40	UNIVERSAL G & G CO. LTD.	330,815,277.86
41	WOODWORLD IMPEX LIMITED	2,053,596,729.20
42	Y.G.F. INVESTMENT LIMITED	5,311,340,606.91
43	YAHAYA MASSARE	80,580,046.92
	<b>Grand Total</b>	<b>3,974,798,982,396.89</b>



**ANNEX 3: Reporting Template  
EITI PAYMENT/RECEIPT REPORT  
From July 1, 201X to June 30, 201X**



**A- Basic information**

Name of the Entity (Forestry company / Government Entity)			
TIN			
Licence No.	1.		Type of licence
	2.		Type of licence
	3.		Type of licence
	4.		Type of licence
Reporting template prepared by		Position	
Email address		Tel.	

**B- Direct Payments/Revenues**

Ref.	Type of Tax	Paid/Received Amount		Comments
		TzS	USD	
<b>Ministry of Mineral Resources and Tourism (MNRT)</b>				
1	Royalties			
2	Licence, Permit and other Fees			
<b>Tanzania Revenue Authority (LTD/DRD/CED)</b>				
3	Corporation Tax (including provisional tax and advance)			
4	Withholding Taxes			
5	Pay-As-You-Earn (PAYE)			
6	Skills and Development Levy (SDL)			
7	VAT paid to LTD/DRD			
8	VAT paid to CED			
9	Excise Duty			
10	Import Duty			
11	Stamp Duty			
12	Fuel Levy			
13	Other material payments made to TRA (> TzS 50 million)			
<b>NSSF/PPF</b>				
14	NSSF Contribution			
15	PPF Contribution			
<b>Local Authorities</b>				
16	Local Levy (Cess)			
17	Service Levy			
18	Other Local Taxes, Fees and Levies			
<b>Ministry of Finance (MoF)</b>				
19	Dividends from Government Shares			
20	Revenues from Government shareholding sale			
Total payments		-	-	

**C- Social responsibility (\*)**

Social Payments		TzS	USD	Comments
21	Corporate Social Responsibility cash payments			
22	Corporate Social Responsibility in-kind payments			

**D- Production & Export (\*)**

No.	Forest Product	Unit	Production (Qty)	Exportation (Qty)	Value (TzS)	Value (USD)
1						
2						
3						
4						
5						

(\*) These sections should be filled in by extractive companies only

**Confidentiality** - All information provided on this form shall be treated on a confidential basis and is only for the use of the Reconciler and Government solely for the purposes of EITI Reporting requirements. Other than information disclosed in the EITI Report, no information shall be disclosed to any third party without the disclosing party's written consent, unless disclosure is required by law.

**Management sign-off**

I acknowledge for and on behalf of the above Entity's responsibility for the truthful and fair presentation of the attached reporting template in accordance with the reporting instructions. Specifically, I confirm the following:

- The information provided in respect of amounts paid/received is complete and has been faithfully extracted from the Entity accounting records;
- All amounts paid/received are supported by genuine receipts and substantiated by documentary evidence;
- The amounts paid/received exclude payments/income made before 1 July 201x and payments/income made after 30 June 201x;
- The classification of amounts paid/received on each line is accurate and does not include amounts due to be reported on other line;
- The amounts paid/received do not include amounts paid/received on behalf of other Entities;
- The amounts paid/received only include amounts paid/received by the Entity;
- The accounts of the Entity on which the figures are based have been audited and an unqualified audit opinion issued.

\_\_\_\_\_  
Name

\_\_\_\_\_  
Position

\_\_\_\_\_  
Signature and Stamp

**Auditors Certification**

I, (name), registered external auditor, have examined the foregoing TEITI reporting template of (insert name of Mining Company/Government Agency) and can confirm that I have tested the completeness and accuracy of the extraction of the payments data included on the reporting template from the audited accounting records/financial statements of the Entity for the period(s) (start date) under International Auditing Standards.

Based on this examination, we confirm that the transactions reported therein are in accordance with instructions issued by TEITI, are complete and are in agreement with the books of account for the respective period.

\_\_\_\_\_  
Name

\_\_\_\_\_  
Position within the Audit firm

\_\_\_\_\_  
Name of the Audit Firm (if applicable)

\_\_\_\_\_  
Address of the Audit Firm (or Auditor)

\_\_\_\_\_  
Signature and Stamp



## Annex 4: Meeting the EITI Standard

	THE EITI STANDARD	ASSESSMENT
<b>EITI REQUIREMENT 1</b>	<p><b>The EITI requires effective oversight by the multi-stakeholder group</b></p> <p>– The EITI requires effective multi-stakeholder oversight including a functioning multi-stakeholder group that involves the government, companies and the full, independent, active and effective participation of civil society. The key elements of this requirement include: (1.1) government commitment; (1.2) government oversight; (1.3) the establishment of a multi-stakeholder group; and (1.4) an agreed workplan with clear objectives for EITI implementation, and a timetable that is aligned with the deadlines established by the EITI Board (1.6-1.8).</p>	<p>The Government of the United Republic of Tanzania already committed to the implementation of the EITI. The TFS, the agency responsible for the collection of revenues from the forestry sector, expressed interested in participating the EITI process in Tanzania. The existing TEITI Multi-stakeholder Group can be expanded to include one member each from the TFS, civil society and the forestry companies to help with oversight.</p>
<b>EITI REQUIREMENT 2</b>	<p><b>The EITI requires timely publication of EITI Reports</b> – EITI Reports are most useful and relevant when published regularly and contain timely data.</p>	<p>It is feasible for Tanzania to publish EITI reports on forestry that are not older than two years, as required by the EITI (for instance, TEITI can publish on payments made and revenues collected from</p>

	Requirement 2 establishes deadlines for timely EITI Reporting.	the forestry sector in the July 2013 – June 2014 fiscal year by July 2015 – June 2016 at the latest.
<b>EITI REQUIREMENT 3</b>	<p><b>The EITI requires EITI Reports that include contextual information about the extractive industries</b>– In order for EITI Reports to be comprehensible and useful to the public, they must be accompanied by publicly available contextual information about the extractive industries. This information should include a summary description of the legal framework and fiscal regime (3.2); together with an overview of: the extractive industries (3.3); the extractive industries’ contribution to the economy (3.4); production data (3.5); state participation in the extractive industries (3.6); revenue allocations and the sustainability of revenues (3.7 -3.8), license registers and license allocations (3.9-3.10); and, any applicable provisions related to beneficial ownership (3.11) and contracts (3.12). The multi-</p>	<p>Information on the legal framework and fiscal regime in the forestry sector is stipulated in the forestry and income tax acts. Information on signification exploitation of forestry is available from the TFS. Available data can establish the contribution of the forestry sector to the economy. Production volumes of forestry products are available from government plantations and forestry companies. Information on the extent of state participation in the forestry sector is available at the TFS. The EITI report can establish distribution of revenues from the forestry sector, whether cash or in-kind, although the latter does not exist in the forestry sector in Tanzania at the moment. Register of licenses exists, but in paper-format and not in a central data-base. Procedures for awarding and transferring licenses are articulated in the Forestry Act and its accompanying regulations. Only information beneficial ownership of locally-owned companies is available at the Business Registrations and</p>

	<p>stakeholder group should agree on who prepares the contextual information for the EITI Report (3.1).</p>	<p>Licensing Agency (BRELA). Sales agreements between the government and forestry companies that were concluded when state-owned enterprises were privatized exist, but they are not publicly available.</p>
<p><b>EITI REQUIREMENT 4</b></p>	<p><b>The EITI requires the production of comprehensive EITI Reports that include full government disclosure of extractive industry revenues and disclosure of all material payments to government by oil, gas and mining companies -</b></p> <p>An understanding of company payments and government revenues can inform public debate about the governance of the extractive industries. The EITI requires a comprehensive reconciliation of company payments and government revenues from the extractive industries. Requirement 4 outlines the steps that the multi-stakeholder group needs to consider in order to ensure that the EITI Report provides a complete account of these payments and revenues. Section 4.1 sets out the requirements related to the types of payments and revenues to be covered in the EITI Report. Section 4.1 sets</p>	<p>All material payments to the government can be established from the records of the TFS and TRA. Social expenditures can be collected from the forestry companies and government agencies such as the National Social Security Fund and the Public Pension Fund. List of reporting government agencies and companies can be determined from data collected from TRA, TFS and TPA. Data on payments to districts is available at TFS and district offices.</p>

	<p>out the requirements related to the types of payments and revenues to be covered in the EITI Report. Section 4.2 specifies which companies and government entities, including state-owned enterprises, should be required to report.</p>	
<p><b>EITI REQUIREMENT 5</b></p>	<p><b>The EITI requires a credible assurance process applying international standards</b>  – Requirement 5 seeks to ensure a credible EITI reporting process so that the EITI Report contains reliable data. The EITI seeks to build on existing audit and assurance systems in government and industry and to promote adherence to international practice and standards. The multi-stakeholder group is required to appoint an Independent Administrator to reconcile the data submitted by companies and government entities (5.1). Section 5.2 outlines the issues that the multi-stakeholder group and the Independent Administrator need to consider in agreeing the Terms of Reference for the reconciliation. This</p>	<p>Existing practices in the TEITI Multi-stakeholder Group for ensuring the EITI reports on mining and gas in Tanzania contain credible data can be replicated in the forestry sector.</p>

	<p>includes the assurances that need to be provided by the reporting entities. Section 5.3 empowers the Independent Administrator to assess the comprehensiveness and reliability of the data and to make recommendations for the future. The EITI Report must be endorsed by the multi-stakeholder group (5.4).</p>	
<b>EITI REQUIREMENT 6</b>	<p><b>The EITI requires EITI Reports that are comprehensible, actively promoted, publicly accessible, and contribute to public debate</b> – Regular disclosure of natural resource revenue streams and payments from extractive companies is of little practical use without public awareness, understanding of what the figures mean, and public debate about how resource revenues can be used effectively. Requirement 6 ensures that stakeholders are engaged in dialogue about natural resource revenue management.</p>	<p>With the support of a competent Independent Administrator and the TEITI Secretariat, the TEITI Multi-stakeholder Group can ensure that the EITI reports on the forestry sector are comprehensible, publicly available and contribute to public debate among key audiences such as government, parliamentarians, civil society, companies and the media. The TEITI Secretariat is well-positioned to facilitate outreach activities and dialogue on how the revenues are managed and used across the country.</p>
<b>EITI REQUIREMENT 7</b>	<p><b>The EITI requires the multi-stakeholder group to take steps to act on lessons learnt and review</b></p>	<p>The TEITI Multi-stakeholder Group will require capacity-building in the forestry sector in Tanzania, particularly</p>

	<p><b>the outcomes and impact of EITI implementation</b></p> <p>– EITI Reports lead to the fulfilment of the EITI Principles by contributing to wider public debate. It is also vital that lessons learnt during implementation are acted upon, that discrepancies identified in EITI Reports are explained and, if necessary, addressed, and that EITI implementation is on a stable, sustainable footing.</p>	<p>familiarization with the types of revenue streams as well as companies and government agencies involved. Following an understanding of the revenues collected from the sector, it would be in a position to address causes of discrepancies; improve future EITI reconciliation reports; review impact of EITI implementation on the sector and on natural resources governance; give feedback to the wider civil society and the extractive industry; educate the wider public; and act on lessons learnt.</p>
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## Annex 5 List of Persons Met

s/n	Name	Position
1	Mikko Leppänen	Counselor, Natural Resources, Embassy of Finland
2	Berit Tvette	Counsellor, Environment and Climate Change, Royal Norwegian Embassy
3	Svein Olav Svoldal	Royal Norwegian Embassy
4	Rumisha Chikambi	Monitoring and Evaluation, Division of Policy and Planning, Ministry of Natural Resources and Tourism
5	Amina Akida	Principal Forest Officer, Planning, TFS
6	William Ndossi	Forest Officer, Exports Unit, TFS
7	Elassy Mujillah	Principal Forest Officer, Resource Management, TFS
8	Dr. S.K. Mchomba	Principal Management Systems Officer, Tanzania Ports Authority
9	Jackline Swai	Environment Management System Officer, Tanzania Ports Authority
10	Joseph Msaki	Operations Manager (Sea Ports), Tanzania Ports Authority
11	Donald Talawa	Terminal Manager, TICTS
12	Zawadi Mbwambo	Director of Resource Management, Tanzania Forest Services Agency
13	Steve ball	Mpingo Conservation and Development Initiative
14	Bettie Luwuge	Tanzania Forest Conservation Group
15	Novati Kessy	Oil for Development Programme Officer, WWF Tanzania Country Office
16	Cecilia Kagoma	Department of Research, Tanzania Revenue Authority
17	Baoz Sanga	Asst. Zonal Manager, Southern Zone, TFS
18	Rashid Sembe	Licensing Officer, Southern Zone, TFS

19	Mussa Mshana	Beekeeping Officer, Masasi District Forest Office
20	Kiroka Lomboy	Forest Officer, Masasi District Forest Office
21	Stella Msoke	Forest Assistant, Masasi District Forest Office
22	Millanzi Sigfrid	Forest Officer Masasi District Forest Manager
23	Bernadetha Mwashiuya	Nanyumbu District Forest Manager
24	Focus Mlelwa	Acting District Forest Officer, Nanyumbu
25	Sulpice Likanda	Head of department, Nanyumbu Lands, Natural resources and Environment Department
26	Kamunana Parton	District Forest Officer, Nachingwea
27	Kassim Ngemba	District Beekeeping Manager Nachingwea
28	Salhina Shabaan Kashenge	District Forest Manager, Kilwa
29	Bernado John	Division Manager, Grade 1, Sao hill Forest Reserve, Mafinga, Mufindi
30	Emmanuel Mwakibinga	General Manager, Sao Hill Industries, Mafinga, Mufindi
31	Isaac Kamuzora	Sawmill Owner, Mwanza
32	Malik Ahtuman	Owner, Malik Timber Works Limited, Mafinga, Mufindi
33	Maulid Ayubu Ngazya	Owner, Ayubu Mohammed Ngazya Limited, Mafinga, Mufindi
34	Alan Bernard Mwera	District Administrative Secretary, Mufindi District
35	Jeswald Ubisimbali	Head of Department, Lands, Natural Resources and Environment, Mufindi District
36	Y.V. Choudary	General Manager, Mufindi Paper Mill
37	Gregory Chogo	Asst. General Manager (administration), Mufindi Paper Mill



38	Catherine Mbatia	Communications Officer, TEITI Secretariat
39	Alice Swai	Legal Officer, TEITI Secretariat
40	Innocent Bash	Economist, TEITI
41	Athuman Kwariko	Coordinator, TEITI
42	Benedict Mushingwe	Head of Secretariat, TEITI

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