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Enhancing Transparency & Accountability of the Extractive Industry in Tanzania

BUDGET ANALYSIS FOR THE MINISTRIES OF MINERALS AND ENERGY 2024/25

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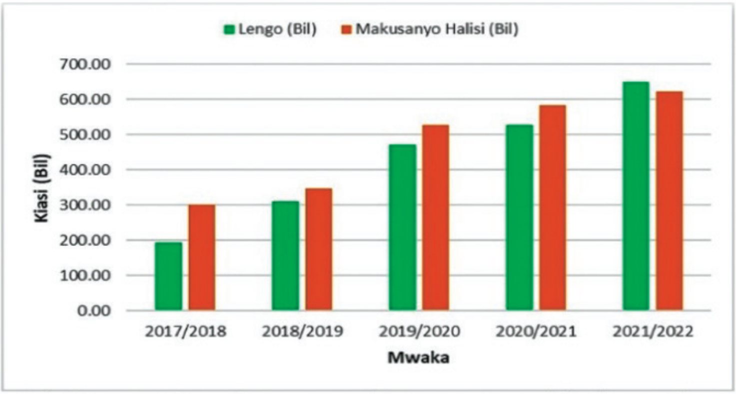
1. Introduction

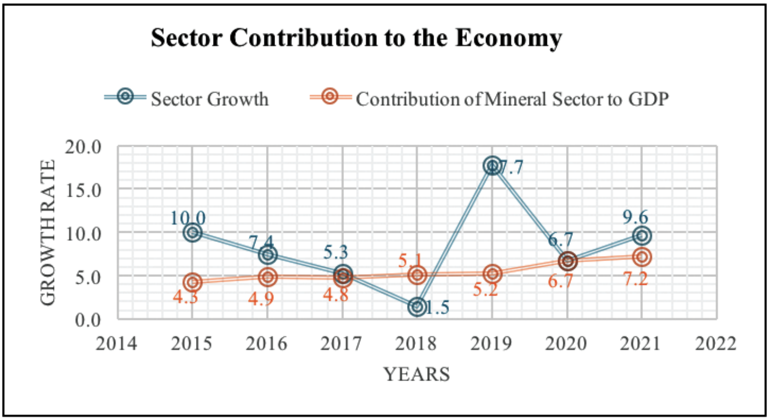
Tanzania is executing its 2023/24 fiscal year budget, totalling 44.39 trillion shillings. Revenue sources include 30.24 trillion from domestic sources, 7.54 trillion from loans, 5.47 trillion from grants and affordable loans, and 1.14 trillion from municipal revenues. Development expenditure is 14.08 trillion, while recurrent expenditure is 30.31 trillion. The budget emphasises economic recovery, climate action, and boosting productive sectors. The country's economic performance is positively triggered by the increasing growth of several sectors, including the mining industry. The increasing contribution of the mining sector to the country's economy has been catalysed by effective revenue collection, as described by the Ministry of Minerals. The graph below illustrates the sector's accomplishments in revenue collection compared to projections. The industry has consistently met or exceeded revenue targets, except for the shortfall in 2021/22. This pattern provides insight into the sector's reliability and role in economic stability and development.[1]



Source: Ministry of Minerals Budget Speech 2023/24

[1] Budget Speech 2023/24. https://www.parliament.go.tz/uploads/budgetspeeches/1686836483-document%20(21).pdf

Furthermore, the Mining Commission[2] Indicates that the mining sector is non-volatile in contributing to the country's economy. From 2015 to 2021, the sector's contribution was 4.3 and 7.2, respectively. This shows the sector's positive contributions to the country's economy, with no ups and downs.



Source: HakiRasilimali

However, according to the Ministry of Minerals and National Bureau of Statistics reports, this analysis has identified the gap concerning the sector's contribution trend to the country's GDP. It was reported that the mining industry had moved further up to 10.9% of the sector's contribution to GDP[3] by the third quarter, whereas the National Bureau of Statistics[4] Reported that the contribution of mining and quarrying sector was 10.2%, reflecting the third quarter of the fiscal year 2023/24.

2. Extractive Sector Budget Allocation Trend and the Existing Key Issues of Concern

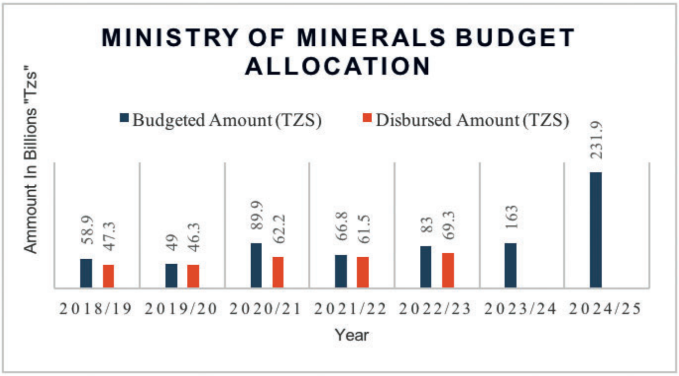
2.1. The Mining Sector

The observation of the budget trend from 2018/19 to 2022/23 reveals that the disbursed budget consistently fell short of the estimated and allocated amounts. However, despite this shortfall, the sector

[3] http://tumemadini.go.tz/wp-content/uploads/RPM-Graph-1.docx
[4] Parliamentary Standing Committee on Energy and Minerals Speech, (2024)

experienced growth in revenue collection, prompting an increase in budget estimates. For example, from the fiscal year 2021/22 to 2024/25, the budget allocation rose from Tshs. 66.8 billion to Tshs. 231.9 billion, respectively.

This trend indicates that while revenue growth is promising, there's a gap between budget allocations and actual disbursements. Moving forward, measures should be taken to ensure more accurate budget estimations and improved budget execution to align with revenue growth and sector needs.

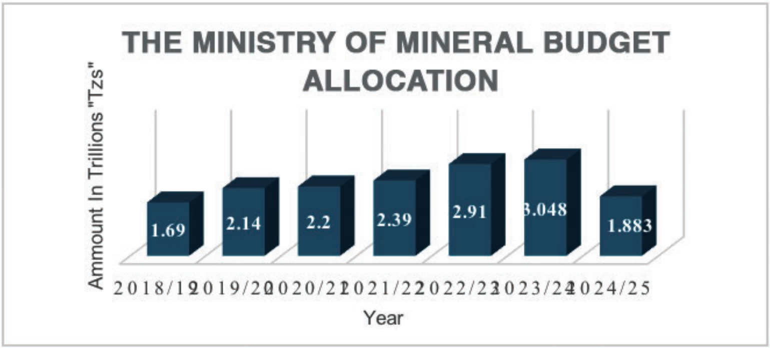


Source: HakiRasilimali

2.2. The Energy Sector

The Ministry of Energy's budget allocation has increased significantly over the past five years, from 2019/20 to 2023/24, due to government investment in strategic projects. However, the proposed budget allocation for the upcoming fiscal years has decelerated significantly, dropping from Tshs 3 trillion to 1 trillion in 2023/24 and 2024/25, respectively. This trend suggests that the energy sector holds substantial potential for the country's economic performance. Notably, the energy sector plays a great role in building a competitive world economy. That's why there has been an increasing trend of budget allocation for half a decade in Tanzania's economy.

Therefore, the decreased budget allocation raises concerns about the sector's focus for the current fiscal year. Contrary to the consistent increase over the past five years, this downturn of almost 1 trillion warrants closer attention. Moving forward, it's essential to understand the reasons behind this decline and ensure that the energy sector receives adequate support to maintain its positive trajectory and contribute effectively to the country's economic growth.



Source: HakiRasilimali

2.3. The Existing Key Issues of Concern

2.3.1. Liquified Natural Gas Project and the Decision Delays

Tanzania's LNG reserves represent a vast reservoir of clean-burning natural gas, providing an invaluable opportunity to diversify its energy mix, reduce its reliance on fossil fuels, and accelerate its journey towards responsible energy transition. (Stanbic, 2022). The development of LNG, both upstream and downstream, holds immense promise for enhancing energy access, bolstering economic growth, and fostering energy security within the country. (Chuwa, 2023).

The discovery of this strategic natural gas reserve started in 2010, whereby in 2015, the government granted TPDC the copywrite for LNG project investment. Since the fiscal year 2015/16, the Ministry of Energy has prioritised the Liquified Natural Gas (LNG) Project.[5] Considering that liquified natural gas investment is referred to as the ministry priority, it reflects the government's strategic focus on investment in oil and gas projects.

However, delays in finalising the Host Government Agreement and Cost Sharing Agreement have stalled project implementation, raising concerns about the $42 billion investment. These delays highlight a dilemma between pursuing the LNG project and international trends favouring clean energy. While the energy ministry prioritises the LNG project, agreement delays significantly hinder its operationalization. The government should address these delays and clarify its stance on implementing the LNG project considering global energy transition goals.

2.3.2. Local Content Survey; The Assessment Failure

According to Local Content Regulation 2017, there should be baseline information on Tanzanians' current capacity and capability for employment. Also, to develop a needs assessment of the required capacities to deploy Tanzanian experts in the petroleum industry.

During 2023/24, fiscal plans included conducting a baseline survey to assess local content capacity and capability in the oil and gas industry. Unfortunately, this implementation fell through, as PURA could not carry out the study due to financial constraints.[6] This failure significantly hampers the nation's strategic capacity to enhance local participation in extractive activities.

It also creates uncertainties regarding our understanding of local capacity for upcoming projects like EACOP and the Liquified Natural Gas Project. To address this issue, there needs to be sufficient oversight, allocation, and regulation of local content regulations in the country to benefit Tanzanians.

5 Ministry of Energy Budget Speech 2025/16.
6 https://www.nao.go.tz/uploads/Annual_General_Report_on_Audit_of_Public_Authorities_FY_2022-23.pdf

2.3.3. Natural Gas Distribution Project; Implementation Delays

The second phase of Five Years Development strategically focused on "Nurturing Industrialization for Economic Transformation and Human Development." [7] This FYDP III was called the "Call to Action," from which TPDC started implementing the Natural Gas distribution project for domestic purposes to increase natural gas consumption in Dar es Salaam, Pwani, Lindi, Mtwara and Dodoma.

TPDC described the significance of these projects as increasing natural gas consumption and supporting industrialization in the country by ensuring a reliable supply of energy sources for users, including power generation.[8] The delay in the domestic cooking gas project has hindered its distribution and utilization for domestic purposes. However, according to the TPDC implementation plan, the project should have been finalized by June 2023.[9]

Various setbacks have impeded project implementation, including insufficient funds released from REA, delayed permit approvals from EWURA, ineffective procurement processes, and delayed advance payments to contractors. These challenges highlight the issue of rising construction costs without reaping utilization benefits. To address this, all setbacks must be addressed comprehensively. Additionally, efforts should be directed towards strengthening institutional integration to enhance project implementation and development efficiency.

2.3.4. STAMICO and Kiwira Project Failure

During the current fiscal year 2023/24, STAMICO prioritised improving implementation strategies to aid small-scale miners with training and construction facilities. However, operational challenges persist, notably at the Kiwira Coal Mining Site, which has remained inactive since 2014[10] despite being under STAMICO's governance, violating Section 47 (a)

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[7] https://repository.mof.go.tz/handle/123456789/109
[8] Gas Distribution Projects - (tpdc.co.tz)
[9] ibid
[10] ibid

of the Mining Act mandating commencement of operations within 18 months of issuance. Although TZS 257.33 million was spent on mine rehabilitation in 2021/22; no funds were allocated for the project in 2022/23, indicating an insufficient commitment to its development. This prolonged delay leads to missed revenue opportunities for STAMICO and risks the loss of the investment made in the mine rehabilitation.

However, the Ministry of Minerals reported production activities at the Kiwira project since July 2022, with 88,077.82 tons delivered. Of these, 40,909.99 tons of coal stones worth 4,520,488,032.86 shillings were sold locally and abroad, and 47,167.83 tons are expected to be sold abroad.[11] This contrasts with the audit report, which raises questions about the Kiwira Coal project's success, as discussed. Clarification is necessary to accurately assess the project's performance and address the discrepancies between the audit report and reported production activities.

2.3.5. Geological Survey of Tanzania and Artisanal Small-Scale Mining; The Challenge of Inadequate Provision of Expert Services

The Geological Survey of Tanzania works on exploration and provides data on geology and mineral resources. Additionally, it assists public members in seeking information on geological matters. Regarding the mining sector legal framework, Section 27A (2) (k) of the Mining Act 2019 mandates GST to provide geoscientific services to support both large and small-scale miners. Despite the GST's strategic plan outlining training for artisanal small-scale miners in four regions by 30 June 2023, expertise was only provided in Lindi and Morogoro.[12]

This limited coverage raises concerns about the adequacy of support for small-scale miners nationwide. It highlights the need for a comprehensive plan, additional staff, and more funding to address this gap effectively. As a result, it hinders the development of small-scale mining operations and limits their contribution to the national Income.

[11] https://www.madini.go.tz/media/HOTUBA_WIZARA_YA_MADINI_2023-24_PchUQkO.pdf

[12] https://www.nao.go.tz/uploads/Annual_General_Report_on_Audit_of_Public_Authorities_FY_2022-23.pdf

Therefore, it's beneficial to establish benchmarks for coverage decisions for plans developed on a fiscal-year basis to ensure the adequate provision of expert services.

3. Conclusion and Recommendations

3.1. Conclusion

This analysis has scrutinized various issues within the extractive sector budget allocation for the Ministries of Minerals and Energy fiscal year 2023/24. It has shed light on critical challenges impacting the sector's performance, including delays in project implementation, insufficient provision of expert services, budget allocation concerns, and sector growth and contribution to the country's Gross Domestic Product (GDP).

3.2. Recommendations

- The government should improve financial planning to ensure budget allocations align with sector needs and revenue projections. Accurate budget estimations and effective execution are crucial for maximising the sector's potential.
- Institutions such as STAMICO, GST and PURA must strengthen their institutional capacity to carry out their mandates effectively. This includes adequate staffing, funding, and strategic planning to address operational challenges and achieve objectives.
- Efforts should be made to comprehensively assess local content capacity and capability in the extractive sector. This includes overcoming financial constraints and ensuring the timely implementation of such assessments to inform decision-making and enhance local participation in extractive activities.

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