

# 5 YEAR BUDGET TRENDS FOR THE MINISTRY OF MINERALS IN ALIGNMENT TO THE REALIZATION OF THE FIVE-YEAR DEVELOPMENT PLAN (FYDP II 2016/17 to 2020/21)

## 1.0. Preamble

Being cognizant of the sector's significance to the country's economy, HakiRasilimali, a platform with a leaning towards enhancing extractive sector transparency and accountability agenda has, carried out an analysis of the budget trends for the Ministry of Minerals in reflection to the realization of the extractive related targets as set in the Five Year Development Plan (FYDP II 2016/17-2020/21).

The main objective of this analysis is not only to advocate for the effective formulation and reforms of policies and laws which govern the Extractive Industries in Tanzania, but also to offer recommendations to further discussions and decisions around future Ministerial budgets and the preparation for the 3rd phase of the Tanzania Development plan 2025.

To start with, this position provides a concrete analysis of the Ministry of Minerals budget trends for last five (5) years looking at specifics such as; the mysteries around disclosure and access to information; state participation in the Mining sector (with focus on STAMICO); Local Content (examining the level and quality of citizen participation); Artisanal and Small-Scale Mining (ASM) formalization as potential route to building local content in the mining sector; environment and Climate change and how it is embraced within the mining sector are discussed.

## 2.0. The Ministry of Minerals Budget priorities over the last 5 years

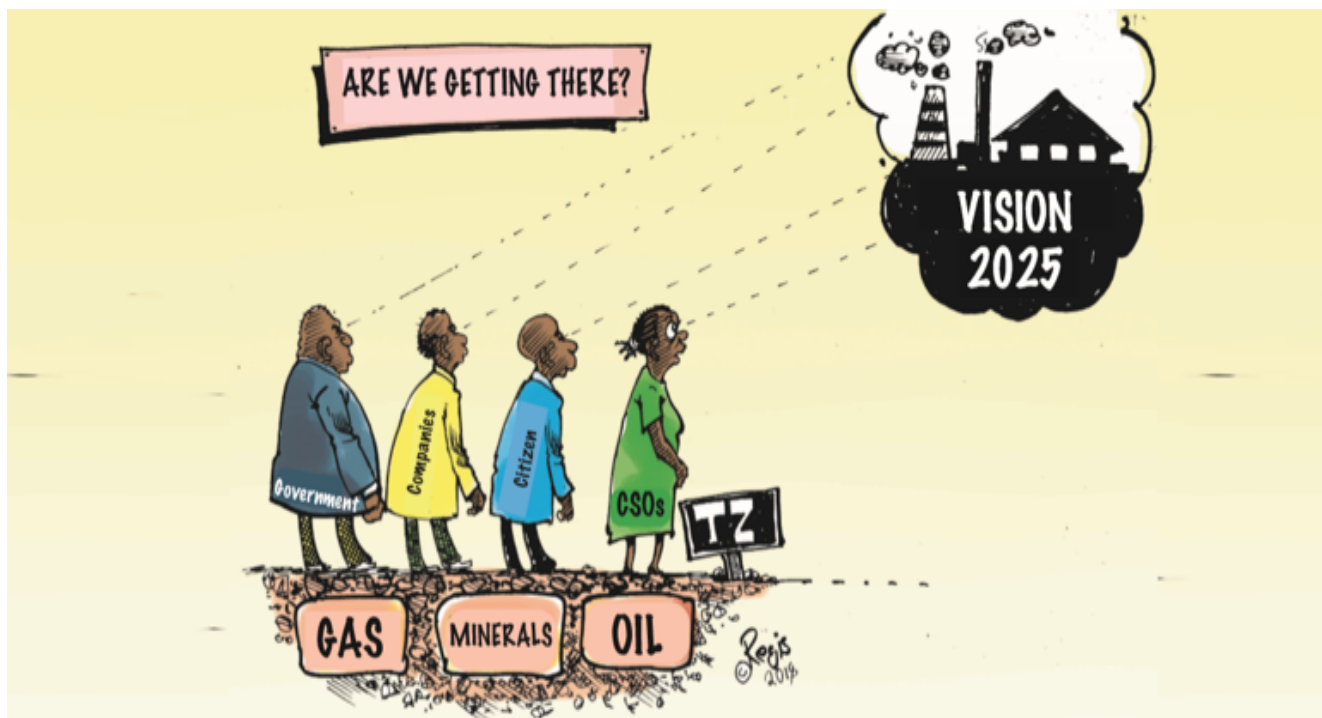
For the last 5 years, the Ministry of Minerals has had essentially 8 priorities which are consistent with Tanzania's Vision 2025. These range from revenue maximization, service delivery to building local content. They are listed below:

- To strengthen mining supervision and trade to increase the contribution of the sector in the economy;
- To strengthen gem auctions including Tanzanite and prevent smuggling of minerals in mining sites and borders;
- To improve revenue collection in the mining sector through

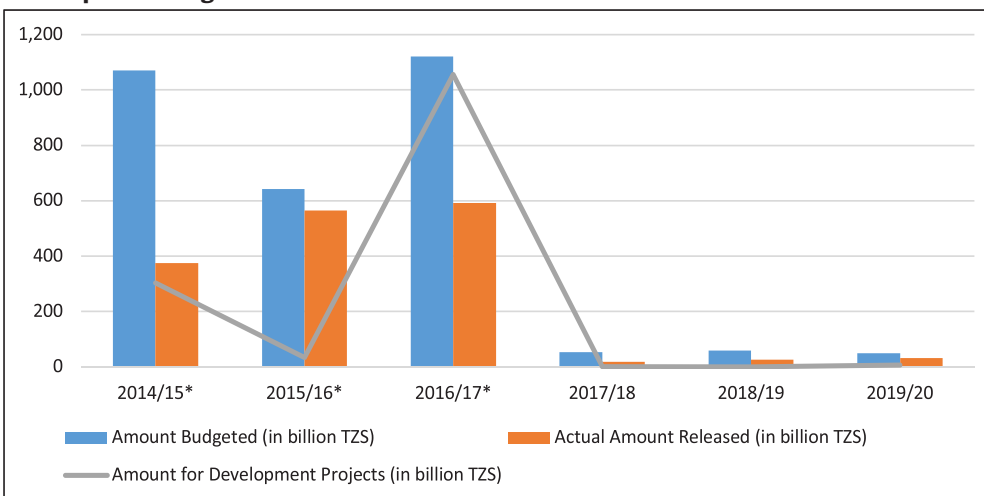
- strengthening Zonal Mining Offices, Mining Resident Offices and the Mining Commission;
- To promote ASM and MSM;
- To facilitate value addition activities in mining;
- To strengthen monitoring and inspection of environment, health and safety and mineral production in small, medium and large sized mining sites;
- To strengthen institutions under the ministry i.e. GST, STAMICO, TGC, MRI and TEITI thereby improving the ability of the ministry to provide services;
- To create an environment that enables locals to benefit from the sector.

## 3.0. Budget Trends over the Last Five Years

The Five-year budget trend sheds some light as to whether the ministry is well resourced in the first place. It should be noted that in the first three financial year's i.e. 2014/15, 2015/16 AND 2016/17, the Ministry combined Energy and Mineral sectors under one docket as indicated by asterisks in **Graph 1**. It is not surprising then that Graph 1 depicts a sharp decline of budget allocation starting mid-way from the 2017/18 financial when the

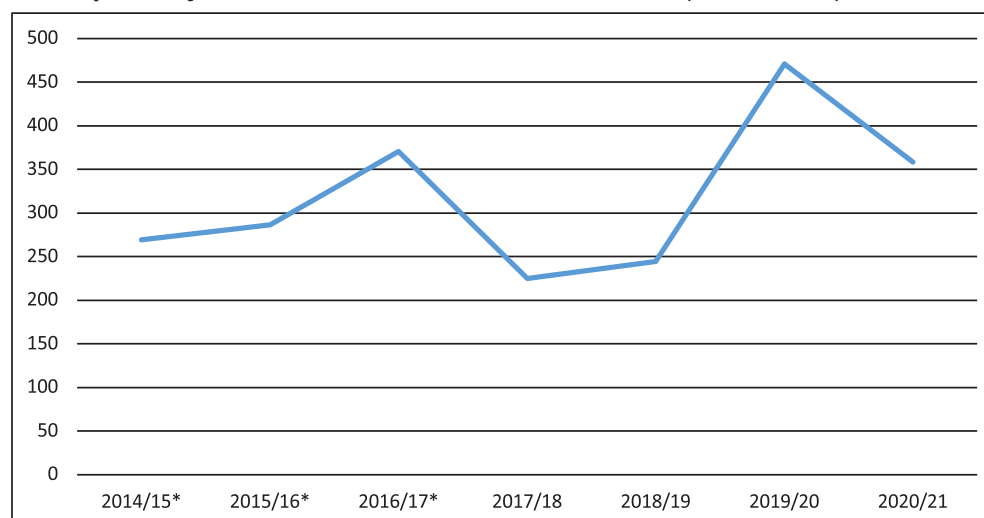


**3.1. Graph 1: 2014/15 -2019/2020 Budget Trend, Actual Amounts Released and Amount for Development Budgets**



Source: Various Ministerial Budgets

**3.2. Graph 2: Projected Revenues from Minerals over the Years (in Billion TZS)**



Source: Various Ministerial Budget books

Ministry of Minerals was separated from that responsible for Energy.

Graph 1 provides the interesting stories of the financial trend, which could be improved in the future, sectoral make-up of the ministry notwithstanding.

- It shows that throughout the 5 years in question that is regardless of the size of the ministry, the actual amount allocated have almost been half (1/2) the amount passed by the parliament.
- It also shows that the amount allocated to development projects have almost been less than half the actual amounts disbursed in the ministry.

Thus, this puts into question the ability of the ministry to undertake development projects that are central to helping the country achieve its Vision 2025. This is rather surprising given the fact that projected revenues collection from extractives have generally been on the high side over the course of the past five financial years as indicated in the **Graph 2**.

The mining revenues paradox is perhaps best explained by its meagre contribution to the Gross Domestic Product (GDP). Indeed, while revenues from the sector seem to be on the increase over the years, a corresponding contribution it has on GDP is negligible. **Graph 3** shows that only a one percent increase in GDP contribution has been recorded between 2015 and 2018.

## 4.0. Revenue collection and the Ministry of Minerals human resources capacity

From 2017/18 onward there was an increase in royalties from 4% to 6% which had an impact in the actual revenue collected. Following that, in 2018/19 there was 25% increase in human resource budget which had some impact in driving increase in projected revenue by 60%. The Ministry was on target in reaching it as it was at 78% by March 2019 and 68% by February 2020. But in 2019/20 the Ministry had respectively decreased its investment in human resource budget to 98% or 79% of 2017/18 and 2018/19 budget levels. This

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is concerning and might limit its capacities for collection bearing the fact that the sector is one of the most potent revenue sources for the nation and any limitation is engulfing its potential for revenues.

If there are some limitations and lack of new clear strategies that support revenue potentials from the sector it, will still be challenging for the foreseeable future. Low budget in personnel investment that drives revenue will impact negatively the capacity of the Ministry to collect revenue as shown in 2019/20 salaries budget that decreased compare to previous year.

As shown above, the Ministry has facilitated training to its staff in various areas. The areas of training include information technology, procurement, OPRAS (Open Performance Review and Appraisal System), policy and geology. These trainings are predominantly for helping with day to day of ministerial work and have limited added value in driving revenues.

## 4.3. Recommendations

- Ministerial budgets have been in line with Vision 2025 in terms of their priorities, implementation thereof leaves a lot to be desired. The government should ensure that not only that fund is allocated but also adequately disbursed for development project.
- The Ministry should engage in increasing investment in a human resource budget that increases the potential of collecting more revenues. Investment should be revenue driven which should culminate with capacity enhancement on contracts and mining financial models that drive revenue and fit Tanzanian context.
- Increase in capacities on transfer pricing/mispricing and regulatory coordination framework within Tanzania, international bodies and other countries to share information for taxation and investments in the sector.

## 5.0. The Mysteries around Disclosure and Opening Contracting

### 5.1. TEITI Budget allocation vs. capacity to execute its duties

TEITI has been established under the Transparency and Accountability Act 2015 for the purpose of enhancing openness and accountability in the exploitation of extractive resources (mineral, oil and natural gas resources). The initiative is being coordinated under the Ministry of Minerals.

To realize the FYDP 2016/17 – 2020/21, the GoT has committed itself to ensuring that tax system is transparent, fair and the capacity of TEITI is enhanced to provide oversight in mining, oil and gas sectors. The Tanzania Extractive Industry Transparency Initiative (Transparency and Accountability) Act 2015 established the TEITI Committee with responsibility to promote transparency and accountability in the extractive sector. Transparency and Accountability proceeds are also realised in other provisions in The Natural Wealth and Contracts (Review and Re-negotiation of Unconscionable Terms) Act of 2017, among others.

Despite its successes such as enhancing disclosure of the reconciled revenues, there are numerous challenges that TEITI has had to contend with. For instance inadequate sources of funds for the implementation of its functions. During the Financial Year 2018/19, TEITI indicated that it failed to carry out many of its planned activities due to scarcity of funds. Out of TZS. 1,629,379,543 that was passed by the Parliament for the Ministerial proceedings, NO funds for development projects had been released to TEITI. Until to date, there have been 9 reports produced by TEITI. However, due to zero disbursement of development budget in the 2018/19 financial year, TEITI has not been able to execute its duties effectively as expected. The consequences of the zero disbursement for TEITI related development projects, lags behind the production of two reports (10th and 11th) report for the years 2018/19 and 2019/20 respectively.

Subsequently in the financial year 2020/21, the government submission has not well articulated how much of the budget

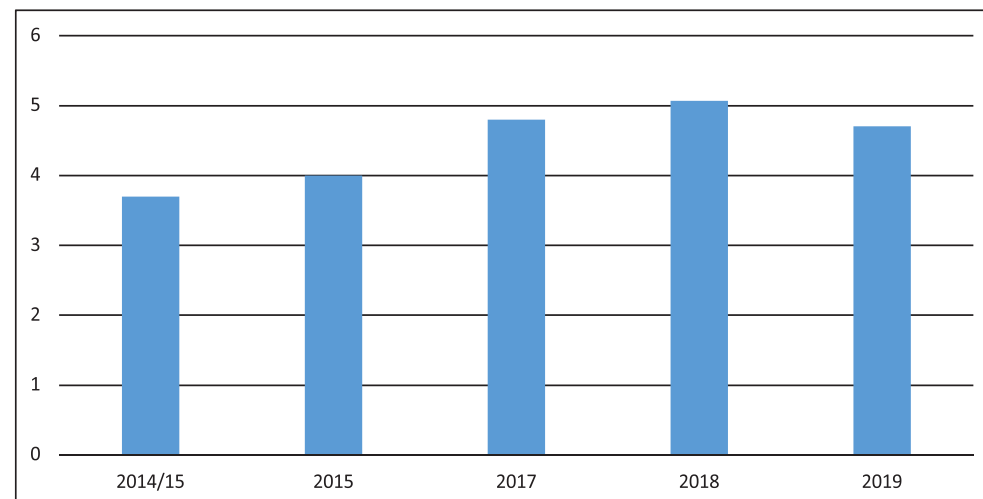
is expected to be allocated for TEITI development projects. In the budget documents, a total of TZS 1,891,052,000/= is expected to pay for salaries for the 116 staffs from four Ministerial units including TEITI. Out of which 443,415,543 has been allocated for TEITI other charges. This information is also limited as it does not indicate how many staff are on payroll. This also goes to the allocation of budget for implementation of activities, a total of TZS 39,491,054,308/= has been set to cover for project implementations but that will also be divided to other departments in the ministry such as Minerals Commission, STAMICO, GST, MRI and TGC only. This makes it hard to understand how much has been set for TEITI and whether that amount will be sufficient to implement activities that are unfortunately go unmentioned in the corresponding financial plan of the ministry.

### 5.2. Status of the beneficial ownership

By definition, Beneficial Ownership (BO), according to OECD (2011), is described as the natural persons who eventually enjoy the income of the asset. It also means that, this natural person(s) directly or indirectly owns and or controls a corporate entity. The Tanzanian legal provisions require that there should be some level of disclosure of certain information of the ownership within the extractive sector. However, these provisions lack harmonization that targets the essence behind disclosure of really owners within companies.

For instance, section 16 (1b) requires TEITI Committee to cause the Ministers responsible for Mining to publish names of the individual shareholders of respective extractive companies. The section is only limited to names of individual shareholders and it does not extend to the really/natural persons. This can be limited especially where shareholding companies are also considered as legal persons. To effectively disclose beneficial ownership, the natural persons who ultimately own the shareholding companies must be known, so as their level of interest. The establishment of beneficial ownership could pose challenges in Tanzania especially when legal persons and legal

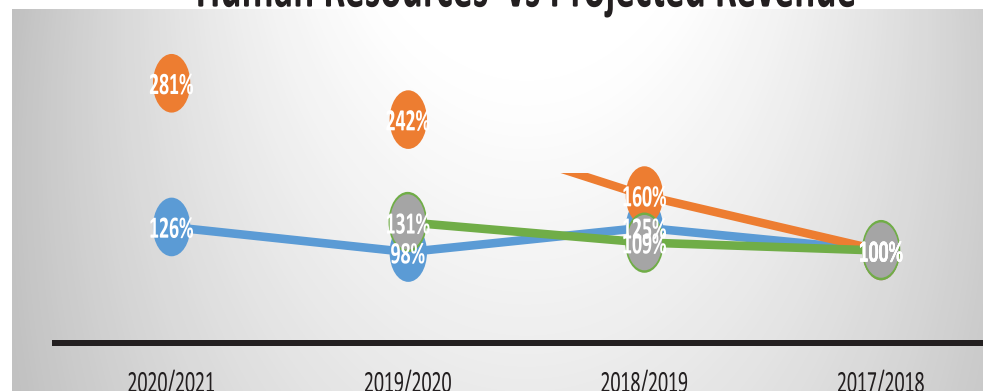
## 3.3. Graph 3: Contribution of Mining to Gross Domestic Product (%)



Source: Various Ministerial Budget books

## 4.1. Graph: 2017/18 -2020/21 Salaries Budget Trend to Projected Revenue

### Human Resources vs Projected Revenue



Source: Various budget books

## 4.2. Training Undergone by the Ministry's staff for the last three years

| Year   | 2017/18 | 2018/19 | 2019/20 |
|--|---------|---------|---------|
| Long term Learning (Certificate, Diploma, Degree, Masters and PHD) | 40      | 14      | 22      |
| Short courses  | 4       | 27      | 21      |

arrangements are involved.

In the speech made by the Minister of Minerals in the financial year 2016/17, the government pledged that TEITI had prepared a road map to establish a public register of names and information of people who own stocks in the minerals, oil and natural gas contracts and licenses between July 2016 and March 2017. Notably, this was seconded by The Prime Minister, Hon. Kassim Majaliwa during his presentation during the London, Anti-corruption Summit. The prime minister went on to state in the speech that the government had done a legal review as part of the processes necessary for establishing the register.

One would therefore expect the 2017/2018 financial budget to have mentioned the progress made towards establishing the register. However, the TEITI reports (especially the 9th) show some progress made i.e disclosure of beneficial owners of the companies have been listed. At the same time, most importantly, the state and stage reached to real-

ize the establishment of the BO register is silent across the Ministerial speeches (Minister of Minerals) despite having a subdomain in TEITI website <http://www.teiti.go.tz/publications/BO> with limited disclosed information.

To effectively disclose beneficial ownership, the natural persons who ultimately own the shareholding companies must be known and their level of interest. It is also unlikely that every company will be fully transparent about its beneficial owners. Some will not comply at all especially where disclosure is voluntary. TEITI should put in place mechanism for verification of declaration made by the companies.

## 5.3. Contract disclosure

Apart from having disclosure provisions in the Tanzania Extractive Industries (Transparency and Accountability) Act, 2015, the Natural Wealth and Resources (review and Re-Negotiation of Unconscionable Terms) Act 2017 was expected to be a game changer. Indeed, the Act mandates the government to renegotiate or

outright remove terms of contracts in the extractive sector. This suggests that contracts would at least be subjected to parliamentary scrutiny. That has not yet been the case till to date, with the incorporation of Twiga Minerals Corporation (a company jointly formed by the government and Barrick in place of the now defunct Acacia) at the top of the list of secrecy around mining contracts. Indeed, in his 2020/2021 budget speech, Minister Biteko fell short of providing contractual details behind the establishment of Twiga with limited clarification given the confused understanding on the meaning and potentiality of the 50/50 sharing of the economic benefits and 16% government shares in Twiga to mention but a few.

We thus note that lack of disclosure of contracts is still a major problem facing the extractives industry in the country. Indeed, there are no significant achievements when it comes to ensuring that extractive contracts are publicly available. It is not surprising that for five years (2015-2020),



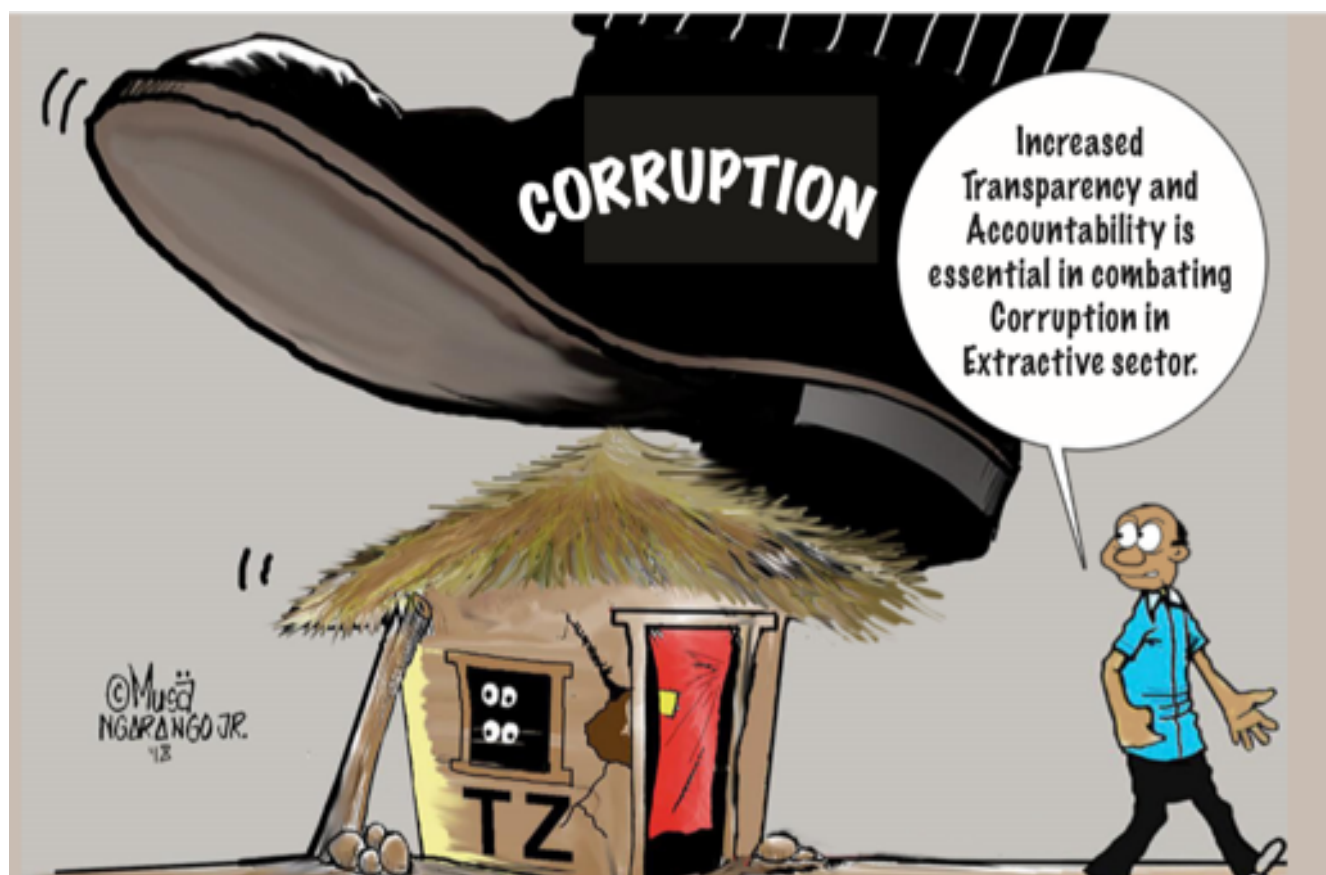
the disclosure of contracts of the extractive companies has not been a priority and little information has been provided in the budget speeches. This year is not an exception to this reality. We theorize that this could be due to lack of political will as the legal system has been improved following the promulgation of various amendments on the 2010 Mining Law in 2017.

#### 5.4. Recommendations

- I. The Ministry of Minerals should ensure that BO register and contract disclosure portal are established as required by both the TEITA act, 2015 and section 2.1.6 of the five-year development plan.
- II. The Parliament should demand from the Government that it tables all mining contracts, including one pertaining to incorporation of Twiga, and scrutinize them with the focus placed on whether the contract have any element of unconscionable terms and beneficial ownership.
- III. The government should make mandatory (through legal mechanisms) for extractive companies to disclose beneficial owners when applying or renewing a license.
- IV. TEITI should be fully capacitated (in terms of Human Resource and Budget allocation).

#### 5.5. State Mining Corporation (STAMICO)

STAMICO is a fully state-owned enterprise under the Ministry of Minerals. It was established in 1972 under the Public Corporations Act 1969 (as amended in 2015). It envisions to be a world class investor in the mining sector in order to contribute significantly to sustainable country develop-



ive Growth

ment. STAMICO owns various mining companies including Stamigold, Buhemba Gold and the Kiwira Coal Mine and gears to make them profit making entities. Also, STAMICO holds 26 prospecting licenses across Tanzania. From the analysis, for the past years STAMICO, through its subsidiaries, has been operating under loss. This has resulted to lowered production in gold by 58% for the period of 2015 – 2018. The losses are due to huge debts, low investment impacting company engagement in production, and not making profits from its subsidiaries. Notably, up to 2019 STAMICO has an outstanding debt of Tshs 67 billion. Moreover, the CAG report of 2019 reveals that STAMIGOLD have been using almost Tshs 7.9 billion for electricity service per month.

#### 6.0. Local Content and Inclu-

To realize an industrial economy and inclusive growth by 2025, the government must ensure maximum and meaningful participation of Tanzanians and their products in the entire mining value chain. The pace to achieve industrial economy should be in a holistic way linking economic growth and human development by ensuring reliable markets for locally produced goods and services, securing direct and indirect employments, enhancing small and medium Enterprises (SMEs) and linking them to Large scale mining companies. It is thus crucial that the Mining Act of 2010 and the Petroleum Act of 2015 require all companies to have local content plans upon investments that are to be submitted to the Authorities for Approval. Furthermore, section 126 of the Mining Act 2010 requires all Mining Com-

panies to list their shares at Dar es Salaam Stock of Exchange (DSE) to enable Tanzanians to acquire shares. In its corresponding amendments, the Natural Wealth and Resources (Permanent Sovereignty) Act 2017 re-introduces local content requirements by emphasizing that natural resources in Tanzania belong to Tanzanians and thus they must benefit from them through various means including ownership.

#### 6.1. Employment

Data availability in the mining sector is scanty. Retrieving data from 2016, the total regular employment in Tanzania was estimated to be 2,416,032. Meanwhile, Tanzanians employed by the extractive companies (all together mining, oil and gas) were estimated to be around 35,900 individuals in both regular and casual employment. New vacancies estimated to be 921 in the same year (All together making 1.52% of the total estimated employment in 2016). With specifics from the mining sector in its totality, during the financial years 2016/17 to 2019/20 the sector was reported to provide more than 1,000,505 employments; 190,809 are direct employment while 809,696 are indirect employments.

The findings, therefore, reveal that the proportion of total citizen-regular employees in the extractive sector is 33,467 compared to 791 non-citizens. This shows that the sector has managed to secure regular jobs for nationals compared to non-citizens. However, the question remains at what level are nationals being employed and under what capacity? Most of the Tanzanians are

employed as unskilled labour of which primary education certificate remains a dominant academic qualification.

Despite the above, in his budget speech for the financial year 2020/21, Hon. Biteko, the Minister for Minerals, noted the bitter and unsolved truth of salary inequalities between nationals and foreigners' employees with similar qualifications. Furthermore, he noted that the mining sector has so far played a significant role in providing employment opportunities to nationals in the exploration and extraction activities.

#### 6.2. Local content compliance mechanism in the Tanzanian mining sector

As stipulated in aforementioned laws and their supplement guides, the biggest Local Content (LC) concern is for the government to ensure that companies comply with Local Content Regulations. From the financial year ministerial speeches 2020/21, 20 out of 76 submitted Local content plans for license applications have been reviewed and approved by the Ministry of Minerals. The remaining 56 companies Local content plans were not approved because of failure to attach and submit all requirements as required by the law i.e. Integrity Pledge related laws, among others, Technology transfer, Research and development budget, and Knowledge and skills development plan.

The budget books from 2015/16 up to 2020/21 financial year's show limited achievements to ensure Local content compliance. These include, inadequate provisions that pro-

vide a comprehensive guide for Local content implementation, campaigns and engagements in order to raise public awareness through mainstream and social media platforms, and inadequacy of the law to highlight on the available opportunities for Tanzanians and their product in the extractive value chains.

#### 6.3. Local Mineral beneficiation and value Addition

Local mineral beneficiation and Value Addition are vital for promoting sectoral linkages and resource-based industrialisation at the regional level. This calls for adaptation of value addition policies and strategies to encourage Local beneficiation and promote viable beneficiation projects.

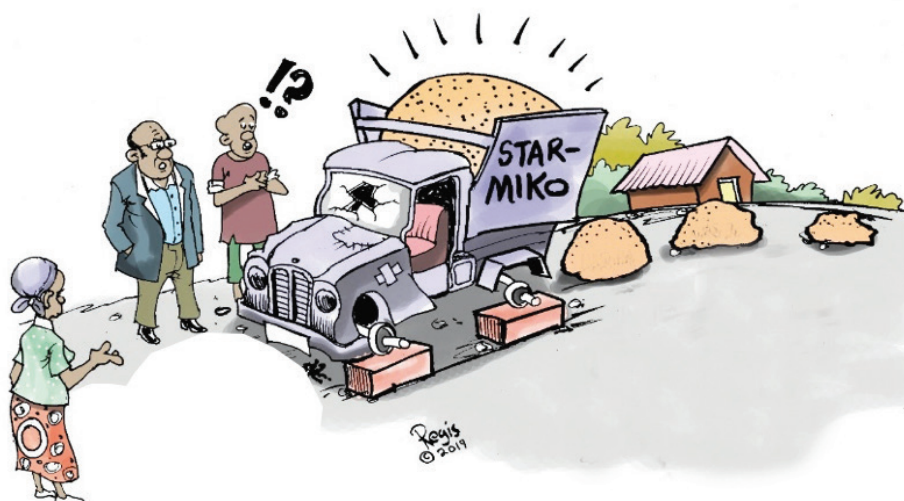
There have been progress on the policy front, notably, Section 9 of the Natural Wealth (Permanent Sovereignty Act) of 2017 and The Mining Act (Mineral Beneficiation) Regulation of 2018, which restrict exportation of any raw resources (minerals) for beneficiation outside Tanzania and require companies to develop or commit to develop beneficiation facilities in the country so as to be granted export permit for minerals processing outside Tanzania (URT 2017). Moreover, The GoT has also developed guidelines for Mineral Value Addition published under the government notice no. 60/2019 on January 2019 aimed at identifying level and quantity of value addition for all types of minerals before export.

The new arrangements between GoT and Barrick on uplifting of the mineral concentrate for beneficiation outside Tanzania rises a question as to whether BARRICK have committed to establish beneficiation facilities in Tanzania as required by the law or that the arrangement is in disregard of the law.

Despite receiving a total of 27 licence applications for smelter and refineries for metal minerals in 2017/2018, for 3 years ministry had only approved 5 licences in total (2 smelters and 3 refineries). Due to limited transparency, there are questions in regards to level of investments, status of implementation and processing capacities of the granted licenses which hinder the practical realisation of minerals' local beneficiation. The Ministry of Minerals should make this strategic investment possible in order to maximise potential highlighted by policy framework.

#### 6.4. Listing of shares at Dar es Salaam Stock Exchange (DSE)

Requiring mining companies to list their shares at Dar es Salaam Stock Exchange is also a step in the right direction. However, the Minis-



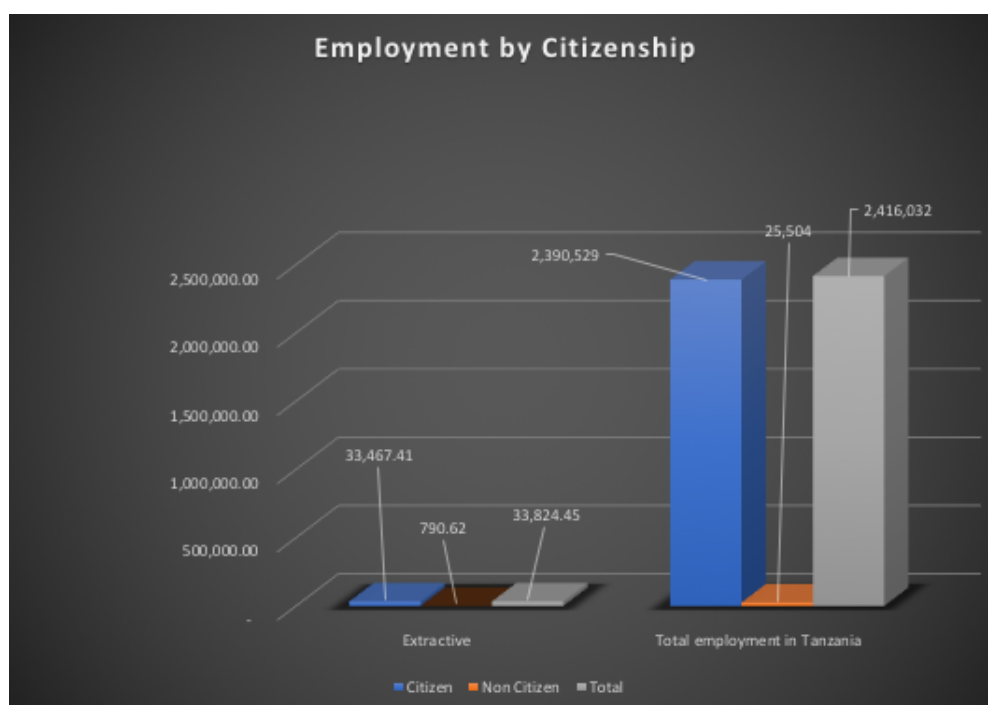
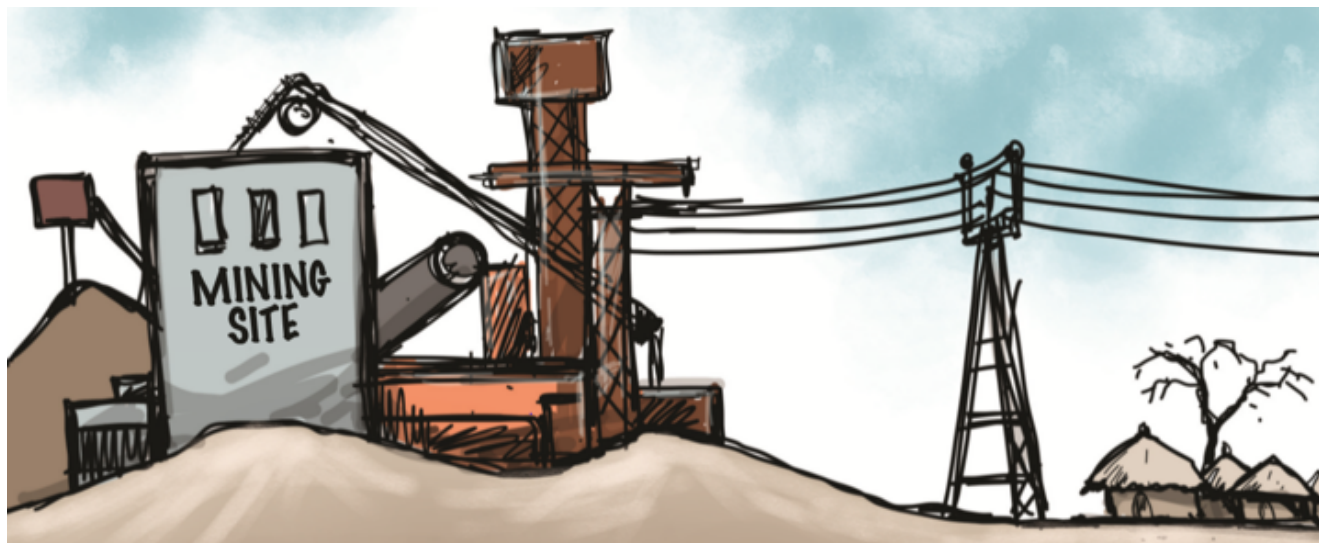


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try responsible for minerals reports nothing on the status of this legal requirement as stipulated in section 126 of the Mining Act 2015 (as amended in 2017). Even though the DSE is under the ministry of finance and planning, it is prudent for the sector ministry to monitor the implementation of the legal requirement relevant to its mandate. This will not only ensure effective implementation of the law but also understanding legal and economic challenges for its executions. The information displayed in the website of the Dar es Salaam Stock Exchange (DSE) reveals only 27 listed companies among which are few extractive companies.

## 6.5. Recommendations

- I. The government should ensure proper mechanism to monitor implementation of the companies' succession plans in place, and regular employment audit should be conducted to assess as to what extent companies comply with skills development.
- II. The government should establish the register for indirect employments (non-extractive business) that are linked to the mining sector and their capacity. Establishment of the register for indirect employments (non-extractive business) that are linked to the mining sector and their capacity to supply is vital to understand the multiplier effect of the extractive sector.
- III. The government should invest more on enhancing local awareness pertaining to opportunities around the mining sector.
- IV. The government should explore the possibility to invest directly in the mining sector by creating a joint venture with nationals who are interested in buying shares.
- V. The government should equip STAMICO to be able to buy shares listed at DSE and participate in the Mining Investment apart from the 16% mandatory free carried interest that is owned by Treasurer Registrar.
- VI. The government should set adequate



budget to units responsible for Local content to enable them to execute their roles more effectively.

- VII. The government should set a strategy to enhance local ownership through buying of shares at DSE.

## 7.0. Artisanal and Small-Scale Mining

The most important step towards formalization of ASM resulted from the meeting between the President of the United Republic of Tanzania and mining stakeholders, held in January 22, 2019. One of the major issues that was raised by stakeholders was about inhibitive taxes imposed on the sector. Following the meeting, the government offered incentives to small-scale miners including abolishing 18% VAT and 5% withholding tax to curb illegal mineral trade which denies the government and miners income.

Another stride, which the government has so far made, is the establishment and promotion of 28 Mineral Markets up until February 2020 as well as 28 mineral sub-centers. Benefits incurred from the mineral markets include increased revenues whereas for the period March, 2019 to January, 2020 a total of TShs. 66,572,127,424.45 was collected through the established mineral markets. In addition, the introduction of mineral markets has spurred the presence of direct employment where a total of 165 persons are employed. These jobs include 140 people employed in mineral markets and 25 people in the mineral sub-centers.

## The achievements of these mineral markets include:

- i. Presence and management of mineral markets and mineral sub-centers that have simplified mineral business especially for small-scale miners,

thus enabling the Government to collect the deserved revenues.

- ii. Continuing to control mineral exports and black markets in the country
- iii. Enhancing the improvement and management of min-

eral indicative price for jewels according to the international market trends. This strategy has enabled the Commission to obtain the actual value of the minerals produced and thus collect the required revenue.

- iv. Continuing to use the GePG system which has simplified payment of various charges and as such to facilitate the collection of Government revenues.

Moreover, under the Sustainable Management of Mineral Resources Project (SMMRP), the Ministry of Minerals has established seven centres of excellence for processing minerals. These centres are located in Buhembe (Mara), D-reef and Kapanda (Mpanda), Itumbi (Chunya), Katente (Geita), Kyerwa (Kagera), Maweni (Tanga) and Masakasa/Mkwenyule (Kilwa). Establishment of these centres has cost USD 8.4 million (equivalent to 1941 billion Tanzanian shillings). These centres have been established to be used by small-scale miners to process their minerals as well as to learn how

to manage their mining operations sustainably.

## 7.1. Recommendations

- I. The government should make the online licensing system more user-friendly
- II. The local government authorities (village authorities in particular) should be involved in granting PMLs
- III. The government should consider establishing a transitory licence for informal ASM operators who aspires to operate under PML.
- IV. The government/ GST should ensure accurate geological information is available to ASM operators to speed the formalization process

## 8.0. The question of women participation and recognition in the budget

Women and girls working in the extractive sector are likely to be exposed to greater risks associated with the extractive operations. Despite this being the case, women and girls receive little or no benefit from the extractive operations. Their representation and participation particularly in the value chain is very scanty compared to men. Women face discrimination, violence and other inequalities within the extractive sector. Women shoulder family and/or social disruptions and environmental degradation impacts. From the analysis, however, there is little information on the impact of the development projects on women and other marginalized groups, as well little information as to how much budget allocation goes directly to women and marginalized programs.



Mikoo