# Contribution of Service Levy from Gas Companies in Mtwara and Kilwa District Councils Revenues

*What is missing?*

policy forum

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Policy Forum is a network of over 70 Tanzania Civil Society Organizations drawn together by their interest in influencing policy processes on good governance and accountability with a specific focus on public money accountability.

Published in November 2015

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ISBN: 978-9987-708-20-8



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# List of Abbreviations and Acronyms

| | | |
|---|---|---|
| CSOs | - | Civil Society Organizations |
| DEITI | - | District Extractive Industry Transparency Initiative |
| EAC | - | East African Community |
| IGAs | - | Income Generating Activities |
| KDC | - | Kilwa District Council |
| LGAs | - | Local Government Authorities |
| MDAs | - | Ministries, Departments and Agencies |
| MDC | - | Mtwara District Council (MDC) |
| PAT | - | PanAfrican Energy Tanzania |
| PF | - | Policy Forum |
| TCF | - | Trillion Cubic Feet |
| TEITI | - | Tanzania Extractive Industries Transparency Initiative |
| TMAA | - | Tanzania Mineral Audit Agency |
| VAT | - | Value Added Tax |

# Acknowledgement

The author would like to thank all those whom contributed to the production of this report. These include but are not limited to the staff of Mtwara and Kilwa District Councils, staff from PanAfrican Energy Tanzania as well as the Policy Forum for facilitating the study.

# Executive Summary

## Introduction

This is a report on the study of the contribution of service levy from natural gas to the budgets of two selected Local Government Authorities (LGAs). These are Kilwa District Council (KDC) and Mtwara District Council (MDC). The focus is on the natural gas service levy that is paid by companies that are producing natural gas in these LGAs. The objective of the study was to identify the extent to which the natural gas service levy contributes to the budgets of the LGAs in general and the relative importance of this source of revenue to the LGAs in relation to the other sources of financing.

This report further draws from and builds up on literature and findings from a previous study conducted by the same author for the Interfaith Standing Committee on Economic Justice and Integrity of Creation.[2]

## Methodology

Both primary and secondary sources of data were used to inform the study. Primary data were collected in the study LGAs and companies investing in them. These data were collected through a questionnaire and in-depth interviews with key informants. The main respondents and informants included but were not limited to company officials and LGAs staff.

## Major findings

The main findings of the study are:

- Natural gas service levy was not being paid to the LGAs as stipulated in the law prior to specific interventions.
- Natural gas service levy is an important potential and actual source of LGA own revenue for financing the councils' budgets.
- Generally, revenues from natural gas have not been used for development expenditure.
- Revenues from natural gas have not been used to generate further revenues through Income Generating Activities (IGAs).

## Policy Recommendations

Based on the findings in Kilwa and Mtwara district councils it is recommended that:

- For Kilwa and Mtwara to benefit from revenues from natural gas due to them from the companies producing in their jurisdiction, the Local Government Finance Act of 1982 should be properly enforced for the benefit of the LGAs.
- Since natural gas service levy is an important potential and actual source of own revenue for financing the councils' budgets, there is a need to have coherent regulatory environment in which the potentialities are actualized.

2 Pilot Study on Extractive Industry Revenue Expenditure in Kilwa, Tarime and Geita District Councils for the Interfaith Standing Committee on Economic Justice & Integrity of Creation. July 2015.

- Since natural gas service levy is not the only source of revenue for the study LGAs, these LGAs should not neglect but rather develop and enhance these other sources because of their importance and due to price volatility and depletable nature of natural gas.
- LGAs should invest part of revenues from extractives not only in recurrent expenditure but also in development expenditure.
- For the sake of sustainable and continuous inflow of revenues to the LGAs' coffers, it is important for LGAs to invest some revenues from extractives in Income Generating Activities (IGAs.)
- With the massive discovery of natural gas and hopefully oil, there are prospects for huge revenue inflows into the LGAs coffers. It is recommended that these LGAs get capacity building on the prudent use of the expected funds as well as enhancing their absorption capacities.

# 1

# Introduction and Background

Financing of public goods and services such as infrastructure of all kinds, education, health, water, security and sanitation is done by using revenues from various sources. This is the case for the central government as well as for Local Government Authorities (LGAs) in Tanzania.

For the central government, the main sources of revenue are tax and non-tax revenues. For taxes, there are various kinds of tax revenues including but not limited to income tax for individuals and corporate bodies, trade taxes as well as consumption tax in forms and shapes of Value Added Tax (VAT). Non tax revenues for the central government include but are not limited to revenues from Ministries, Departments and Agencies (MDAs). These may include incomes from investments, fines, fees and other incomes.

Local Government Authorities (LGAs) on their part have various sources of own revenues as well. According to the Local Government Finance Act No. 9 of 1982, LGAs are supposed to discern and enhance local revenue mobilization and to uncover promising areas for investment to stimulate sustainable economic and social development in their respective districts. Furthermore, LGAs by-laws have specified various sources and rates of own revenues.

For rural LGAs for example, the main sources of revenues have been crop cess normally charged at 5% of farm gate price. For urban LGAs, sources, of revenue have potentially included fines and fees including fees from markets, toilets, vehicle stands as well as rental fees from LGAs properties including guest houses and staff houses. LGAs that have natural resources endowment in general and extractive resources in particular are expected to benefit from such resources in various ways. These include benefitting through revenues extracted from the resources. Such revenues include but are not limited to, service levy charged by the LGAs to companies operating within their jurisdiction.

Among such levy include natural gas levy charged by LGAs endowed with this resource. Kilwa District Council (KDC) and Mtwara District Councils (MDC) are among the LGAs with natural gas endowment. It is expected therefore that the two districts have benefited from service levy collected from natural gas. The study that informs this report aimed at documenting and discussing the extent of service levy extracted from natural gas in KDC and MDC. It is against this background therefore that the research on contribution of Service Levy From Gas Companies in Mtwara and Kilwa District Councils Revenues was undertaken.

## An Overview of Natural Gas in Tanzania

The discovery of huge commercial quantities of natural gas in Tanzania in the first part of 2010s has been among the leading news in Tanzania and beyond. The history of gas in Tanzania however, can be traced as far back as during 1950s when exploration for both gas and oil started (The National Natural Gas Policy of Tanzania, 2013).

According to Tanzania Petroleum Development Corporation (TPDC) up to September 2014, about 50 trillion cubic feet (TCF) of commercial natural gas had been discovered in Tanzania.[3] Gas discovery in Tanzania covers two large and major geographical areas which are Songo Songo island in Kilwa district in Lindi region where 2.5 TCF were discovered in 1974. Another area is Mnazi bay in Mtwara Rural district in Mtwara region where 5 TCF of gas were discovered in 1982. There have also been other small gas discoveries in 2007 in Mkuranga district in Coast region where gas reserves are estimated to be 0.2 TCF. In 2008, about 0.07 TCF of gas reserves were found at Kiliwani North which is located some 2.5 Km away South East of Songo Songo Island.[4]

## Selected Literature on Extractive Industry Revenues

There has been an increased focus/attention on the diversification of public revenue collection and the proper use of the same. This is seen in the current literature on revenues from natural resources (mining in particular) and a number of interventions from different stakeholders. This increased attention can be attributed to the increased need for domestic sources of revenue to finance public goods and services in Tanzania and the African context in general[5].

The aforementioned pilot study on extractive industry revenue expenditure by the Interfaith Standing Committee on Economic Justice and Integrity of Creation cites some of the current literature in the broad area of revenues from natural resources and mining in particular. These include; Lundstø et al (2013)[6] on reasons for low government revenue from the mining sector, Curtis, Ngowi and Attiya (2012)[7] on Tanzania's public revenues lost through various mechanisms including fiscal incentives in government revenue from the mining sector, Curtis, Ngowi and Attiya (2012)[8] on Tanzania's public revenues lost through various mechanisms including fiscal incentives in the mining sector, Curtis and Lisu (2008)[9] on lost opportunities in gold mining, Policy Forum (2012) on tax competition including fiscal incentives in the East African Community (EAC), Mrema (2012)[10] on constraints to more effective taxation of extractive industry in Tanzania, and Lange (2006)[11] on benefits streams from the mining sector in Tanzania.

Although these quoted works have directed focus on the mining sector, one can draw

3 Nellist, Roger. (2014) "Statoil's new discovery boosts Tanzania's gas reserves" Tanzania Affairs, Issue 109.

4 Msaky, E. (2013), *Oil and Gas Exploitation- General Overview:* A presentation to the Delegation From Tanzania private Sector Foundation (TPSF)

5 The Interfaith Standing Committee on Economic Justice and Integrity of Creation (2015) Pilot Study on Extractive Industry Revenue Expenditure in Kilwa, Tarime and Geita District Councils, July 2015

6 Lundstøl, O, Raballand, G and Nyirongo, F (2012). Low Government Revenue from the Mining Sector in Zambia and Tanzania: Fiscal Design, Technical Capacity or Political Will?

7 Curtis, M. Ngowi, H. P. and Attiya. W (2012). The One Billion Dollar Question: How Can Tanzania Stop Losing So Much Tax Revenue?

8 Curtis, M. Ngowi, H. P. and Attiya. W (2012). The One Billion Dollar Question: How Can Tanzania Stop Losing So Much Tax Revenue?

9 Curtis, M.and Lisu, T, A. (2008). Golden Opportunity: How Tanzania is Failing to Benefit from Gold Mining

10 Mrema, N.G (2012). Constraints to more effective taxation of extractive industry in Tanzania, Paper presented in Lusaka Zambia, April 2012

11 Lange, S. (2006). Benefit Streams from Mining in Tanzania: Case Studies from Geita and Mererani, online at http://www.cmi.no/publications/publication/?2398=benefit-streams-from-mining-intanzaniahttp://www.cmi.no/publications/publication/?2398=benefit-streams-from-mining-in-tanzania

parallels with the issue of collecting revenues from recently discovered natural gas in Tanzania. Stakeholders, moreover, agree that lessons should be learned from past mistakes in the extractive industries so that the country can benefit from revenues including service levy from natural gas.

## On Local Government Revenues

The Local Government Finance Act (1982) is the foremost legal apparatus that provides LGAs with the official control to collect revenues not only from extractive industries but also from many other sources:

*"An Act to make provision for sources of revenue and the management of funds and resources of Local Government Authorities and for matters connected or incidental to securing the proper collection and sound management of finances in the local government system" (Local Government Finance Act, 1982)"*

The Act also provides LGAs with the power to collect various types of revenues. It also allows LGAs to make their own by-laws to enhance this revenue collection function from various sources. The collection of service levy equal to 0.3% of annual turnover is therefore enshrined in this law.

Particular parts of the Local Government Finances Act that incorporate all amendments to the same since its enactment in 1982 up to 30th June, 2000 are outlined in the box below.

### Sources of Funds for District Councils

Section **7** (1) of Part II of the Act, provides for a total of 27 sources (from (a) to (aa)) of revenues, funds and resources of a district council. Those relevant to this study are the following:

(b) all moneys derived from any trade, industry, works, service or undertaking carried on or owned by the district council;

(e) all moneys derived from any rate imposed by the district council under or in pursuance of this Act or any other written law;

(aa) all monies derived from the service levy payable by corporate entities at the rate not exceeding 0.3 percent for the turn over net of the value added tax and the excise duty.

(2) Any other moneys lawfully derived by a district council from any other source not expressly specified in subsection (I) shall be and form part of the revenue, funds and resources of the district council.

### PART III: Making and collection of rates

13.-(1) Subject to this Act and to rules made by the Minister under this section, a local government authority may make by-laws imposing such rates to be paid by the inhabitants or such categories of inhabitants, for, on or in connection with

such services, things, matters or acts as the authority may describe or specify in the by-laws in question.

13 (2) The Minister shall, after consultation with the Minister responsible for finance, make rules, to be known as rating rules, prescribing limitations and imposing conditions upon which any local authority or category of local authorities may make legislation imposing rates under this section.

13 (5) The Minister may, by order in the Gazette, exempt any category of persons from payment of any rate chargeable under this Act.

14. Every district council and every urban authority shall, subject to this Act, make or levy such rates as will ensure the raising of income from rates which, in combination with income from other sources of revenue, will be sufficient to provide for such part of the estimated total expenditure to be incurred by it during the period in respect of which the rate is made or levied as is to be met out of money raised by rates including in that expenditure any additional amount as is, in the opinion of the authority, required to cover expenditure previously incurred or to meet contingencies or to defray any expenditure which may fall to be defrayed before the date on which the money to be received in respect of the next subsequent rate will become available; except that an authority which submits for the necessary approval a proposal to make or levy a rate which complies with the requirements contained in this section shall be deemed to have complied therewith.

***Source:*** *Extracted from Local Government Finance Act 1982*

## Recommendations

As the main legal instrument the LGAs Act 1982 bestows huge legal power on LGAs to collect revenues from various sources, including from natural resources. There are however some potential barriers in the capacity of LGAs to collect their own revenue. Part III (13) 5 of the Act gives the Minister responsible for finance powers to give exemptions from paying some LGA revenues. It states that:

This Act clearly stipulates that, the responsible Minister, by order in the Gazette, may exempt any category of persons from payment of any rate chargeable under the Act.

If and when the Minister exercises this power and exempts companies from paying natural gas service levy in the context of this work therefore, the LGAs concerned will suffer revenue loss and reduce their ability to finance public goods and services from their own sources. It is recommended therefore that such powers be removed from the minister in order to avoid misuse of the same and negatively impacting LGAs' revenues. This power should be removed from the minister in similar ways in which the powers to grant fiscal incentives to investors have been removed from the minister by the VAT Act 2014.[12]

12 The Interfaith Standing Committee on Economic Justice and Integrity of Creation (2015) Pilot Study on Extractive Industry Revenue Expenditure in Kilwa, Tarime and Geita District Councils

## Main Sources of LGAs Revenue

After various reforms, there are some relatively few sources of revenue that remain for LGAs. These are presented in the table below.

***Table 1: General LGAs' Main Own Sources of Revenues Framework***

| Sources of own revenue for LGAs (District and Municipal Councils) | |
|---|---|
| Local Taxes | Local Non-tax Sources |
| Asset / Property Tax | Licenses, fee and permits |
| Property / Building Tax; Land Rent | Building license fee |
| | Liquor license fee, as per the Act |
| Product / Sales Tax | Scaffolding fee |
| Crop Cess (maximum 5% of farm gate price). | Fishing vessel license fee |
| Livestock Auction fee (to be charged only within the market and livestock actually sold) | Other licenses and fees |
| Service Levy | |
| | Service Charges |
| | Abattoir fees (excludes animals slaughtered outside the abattoir or in the villages) |
| | Market fees |
| | Refuse collection fees (different rates for industries, commerce and residential areas and type of refuse) |
| | Plying fee |
| | Other Revenues |
| | Sale or rent of council assets |
| | Fines and penalties |

**Source:** URT, Local Government Fiscal Review 2004

## Main issues and Recommendations

The general framework from which LGAs can raise own sources of revenue is rather old. However, the sources and issues raised based on them remain relevant even today. From the list of potential sources of revenues above it is seen that LGAs have various sources from which they can raise own revenues. Among such sources include service levy in general and service levy from extractives including natural gas in the context of this work. Therefore apart from service levy from natural gas, Kilwa and Mtwara district councils can potentially raise revenues from many other sources.

It is recommended that whereas revenues accrued from natural gas service levy may be substantial sources of revenues for Kilwa and Mtwara district councils, they should diversify away from this source so as to have broad-based revenue sources. This is important because natural gas is extractive, depletable and a non-renewable resource. Furthermore natural gas price as is the case for many other commodities is volatile. In order to ensure smooth inflows of own revenues LGAs with natural gas (and other extractive resources) should not fall into the temptation of heavily depending on revenues from these extractives.

It is recommended further that part of revenues from these extractives should be invested in income generating activities (IGAs) including enhancing other revenue sources. For this to happen inter alia there is a need for enabling policy, legal and regulatory frameworks. These may include policies, laws, by-laws and regulations that require such LGAs to invest a portion of their revenues from extractives in IGAs[13].

## Mineral Development Agreements (MDAs) and the New Mining Fiscal Agreements in 2014

Prior to the 2014/2015 financial year, Mining Development Agreements (MDAs) entered between the government and mining companies conflicted with the Local Government Finance Act of 1982. The MDAs waived the requirement of charging 0.3% of gross revenues being service levy from mining companies to relevant LGAs. Instead, a flat rate of 200,000 USD per annum has been paid until recently.

According to The East African newspaper[14] (October 11 – 17, 2014, page 1 and 6), the Tanzanian government and some big mining firms agreed on new rules for royalty payment, dropping Value Added Tax (VAT) relief and changing the service levy from a fixed amount of USD 200,000 per year to 0.3% of gross revenue per year. Royalty computation will be 4% of gross value of minerals instead of 3% of net profit. Royalty is set at 5% for all gemstones. Service levy will cease to be a flat rate USD 200,000 and graduate to 0.3% of turnover. Mining companies will also no longer enjoy a 15% VAT tax waiver. Anglo Gold Ashante and Geita Gold Mining (now called Acacia) were the first to sign the agreement that replaced the previous Mining Development Agreement (MDA).

13 The Interfaith Standing Committee on Economic Justice and Integrity of Creation (2015) Pilot Study on Extractive Industry Revenue Expenditure in Kilwa, Tarime and Geita District Councils, July 2015

14 Govt seals new tax deal with miners, drops 15pc waiver

## Main Findings and Recommendations

The October 2014 settlement on new formula and rates in theory may help benefit LGAs that receive service levy from extractive companies. The move from a service levy based on a flat rate of 200,000 USD to 0.3% of turnover stands to benefit LGAs if the 0.3% value is greater than 200,000 USD. The flat rate of 200,000 USD has most likely implied lost opportunity for LGAs which would have gone towards infrastructure development and social services such as education, health, water, sanitation and other public goods and services.

It is recommended therefore that the agreed and laid down service levy rate of 0.3% annual turnover is adhered to for the LGAs to extract substantial own revenues from this source of revenue[15].

15 The Interfaith Standing Committee on Economic Justice and Integrity of Creation (2015) Pilot Study on Extractive Industry Revenue Expenditure in Kilwa, Tarime and Geita District Councils, July 2015

# 2

# Findings from the Case Study Districts

In what follows, study findings on revenues from the service levy collected from natural gas in Kilwa and Mtwara District Councils are presented, analyzed and discussed. The findings are presented district by district and then followed by general conclusions and recommendations based on the findings of the study informing this report.

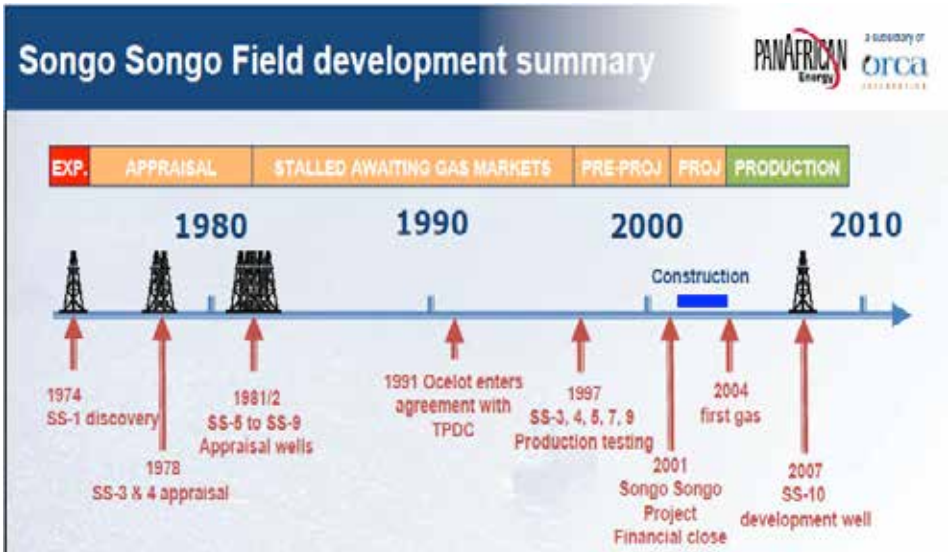
## Findings from Kilwa District Council (KDC)

Kilwa district which lies on latitude 8020 to 9056 and longitude 38036 to 39050 east of Greenwich is located in Lindi region in Southern Tanzania. It is bordered by Rufiji district in the Coast region to the North, Lindi and Rungwa districts to the South, Liwale district to the West and the Indian Ocean to the East. The district occupies a total area of 13,347.50 square kilometers out of which 12,152.9 square kilometers is surface land and 1,221.52 square kilometers is water body (the ocean). In 2012, the population was 171,057 living in 36,549 households. The district is divided into 6 divisions, 20 wards and 97 registered villages with Masoko and Kivinje urban areas included[16].

## Natural Gas in Kilwa District Council (KDC)

Natural gas in KDC is produced in Songo Songo Island. Discovery of gas in Songo Songo was made in 1974. It marked the first gas discovery in Tanzania after long term effort since 1952[17]. The figure below gives a summary of gas development in Songo Songo.

***Figure 1: Songo Songo Field Development Summary***




***Source:*** *Williams (2009), Tanzania Subsurface Manager, Orca Exploration*

16 See http://www.lindi.go.tz/kilwa.html for details

17 The National Natural Gas Policy of Tanzania, 2013

According to Msaky (2013)[18], gas reserves in Songo Songo Island are estimated to be 2.5 trillion TCF[19]. In 2004, production of natural gas in the island gas field started and has been transported to Dar es Salaam region through a 225 km long pipeline where it is used to produce about 180 megawatts (MW) of electricity by Songas Limited Company at Ubungo, Kinondoni District.

Songas has sub-contracted gas production to Panafrican Energy. The responsibility to make payments such as local taxes and royalties therefore falls on Panafrican Energy, whose activities are located in KDC as opposed to Songas, whose activities are located at Ubungo in Dar es Salaam.

## Amounts and Basis for Revenue Payment to KDC

According to responses from the company, PanAfrican Energy Tanzania (PAT) carries out activities in Kilwa District. Its business address and registration are in Dar es Salaam. Consequently and in accordance with the law, PAT has been paying 0.3% service levy to Ilala District Council in Dar Es Salaam. In accordance with the Petroleum (Exploration and Production) Act, 1980 the Minister responsible for Petroleum Affairs has the power to determine the price for natural gas at the wellhead. In this regard, the Ministry advised PAT to start paying service levy to KDC from the year 2012 instead of paying the same to Ilala.

## Amount Paid by PAT to Kilwa District Council

According to the company, Pan Africa Energy Tanzania (PAT) paid to Kilwa District Council municipality levy of 0.3% of gas sales revenues from 2012 to July 2014. The amount has been paid on different dates and amounts as summarized in the table below.

***Table 2: Municipal Service Levy Paid by PAT to KDC, 2012 to July 2014***

| S/n | Year | Amounts paid (Tsh) | Dates and amounts paid |
|---|---|---|---|
| 1 | 2014 | 271,149,835[20] | 31/07/2014: 110,378,957<br>31/07/2014: 48,001,809<br>22/04/2014: 112,769,069 |
| 2 | 2013 | 495,302,649.07 | 20/01/2013: 123,802,169<br>28/10/2013: 139,793,184.07<br>31/07/2013: 117,076,055<br>03/05/2013: 114,631,241 |
| 3 | 2012 | 406,986,901 | 31/01/2013: 121,389,513<br>19/10/2012: 109,552,692<br>17/07/2012: 88,832,164<br>10/04/2012: 87,212,532 |
| **4** | **Total** | **1,173,439,385** | |

***Source:*** *Field findings, PanAfrican Energy Dar Es Salaam, and author's computation*

18 Msaky, E. (2013), Oil and Gas Exploitation- General Overview: A presentation to the Delegation From Tanzania private Sector Foundation (TPSF)

19 http://www.tpdc-tz.com/oil%20and%20gas%20exploration.pdf

20 Up to 30th July 2014

It is seen from the table above that the company has been paying to Kilwa District Council substantial amounts of levy based on 0.3% of the revenue the company accrues from sales of the gas from Songo Songo.

## Findings from Grey Literature

The grey literature contains some information on the service levy paid by Pan Africa Energy to Kilwa district. Below is the company's reaction to some media coverage that it does not pay municipal levy after a question was raised in the Parliament on 18th March 2015.

**Box 2: Pan Africa Energy's Press Release on Its Payment of Municipal Levy**

PanAfrica Energy wishes to state for the record that it is fully current in its payments of Municipal Levy. Up to March 2012, it paid the levy to Ilala Municipal Council, where the company is registered in accordance with the Local Government Finance Act 1982. On 26th March 2012 the Ministry of Energy and Minerals (MEM) issued a directive to PanAfrican Energy (under Reference No. CBD.88/267/03/F/53) to cease making payments of Municipal Levy to Ilala Municipal Council and to instead pay the levy to the Kilwa District Council. PanAfrican Energy complied with this Government directive and made its first payment to Kilwa District Council on 10th April 2012. It has since paid a total of Tsh 1,370,520,762 to Kilwa District Council. Details of the company can be seen at *www.panafricanenergy.com* or *www.orcaexploration.com* or *www.sedar.com* Details contact: Jacqueline Kawishe - Corporate Affairs Officer (+255 782 238 581), *jkawishe@panafricanenergy.com*[21]

## Key Issues and Recommendations

It is seen here that PAT had been paying service levy to Ilala district council until 2012 because that is where its business address is located. It was not paying the levy to Kilwa district council where its actual operations are located. It is recommended that the policy, legal and regulatory frameworks be very clear on where service levy should be paid instead of depending on the 'advise' of the minister.

Basically service levy should be paid where actual production is taking place for various reasons. Among other things, investors enjoy several public goods and services in the LGAs where production is taking place, they may cause environmental damage in the production areas and the LGAs have to benefit in terms of a portion of revenues that these companies extract from their jurisdictions.

Paying service levy to the LGAs where production is taking place is good for local economic development. Paying the levy where the companies are registered will not be good for LGAs endowed with natural resources because most companies are registered and have their business address in Dar Es Salaam.

As if all of the above were not enough, paying service levy to LGAs where production is taking place will be complying with the law. The Local Government Finance Act

21 Daily News, Thursday March 26th, 2015 page 19: "PanAfrican Energy Tanzania Limited declares it has paid all due Municipal Levies and categorically denies allegations to the contrary"

of 1982 requires companies under Schedule G (c) of the Act to pay 0.3% of the annual sales to the local government where they are undertaking production.

Among the issues related to the 0.3% payment to KDC is the capacity of the LGAs to monitor the revenues that emanate from the gas sales so as to demand its fair share of 0.3% as service charge. The extent to which LGAs are actually paid the 0.3% service levy depends on the integrity of the extractive industry companies in question. The challenge is getting the actual quantities of gas sold, unit price and thereby total revenue received.

If there is no transparency on part of the extractive industry companies, LGAs may not know the volume of gas sold, unit price, total revenue and therefore their 0.3% of the revenue.

It is therefore recommended that since LGAs are entitled to 0.3% of total revenue share from the sale of resources by extractive companies. LGAs should get the needed capacity to determine their monetary amount of 0.3% share.

Ideally the revenue will be a result of quantities of natural resources sold times unit price at a particular point in time, then multiplied by 0.3% or by 0.03. Mathematically, this can be expressed as **R = (Q x P) x 0.03.**

While the 0.03 or 0.3% is a constant in this equation, **Q** and **P** and therefore **R** are variables. The capacity of LGAs to know the magnitude of quantity of natural resources extracted and sold (Q) and price of the same (P) at any point in time needs to be built.

Alternatively, since Tanzania Mineral Audit Agency (TMAA) exists and assuming that it has the auditing capacity[22], it should share the audit data with LGAs.

However, TMAA is for minerals (mainly gold), and not gas. There is therefore a need for formation of a TMAA equivalent in the gas subsector (something like Tanzania Natural Gas Audit Agency) at the national level. Such an agency could then share data of quantities of resources with the relevant LGAs. Data on the price of these resources at any point in time should be available from various sources including online. LGAs staff should acquire the capacity needed to collect the prices accordingly[23].

## Kilwa District Council's Figures on the Service Levy Received

Field findings show that, for the financial years 2011/12 to 2013/14, KDC managed to collect service levy amounting to a total of 480,000,000 Tshs per year from PanAfrican Energy Tanzania. Table 3 shows this revenue for the three years.

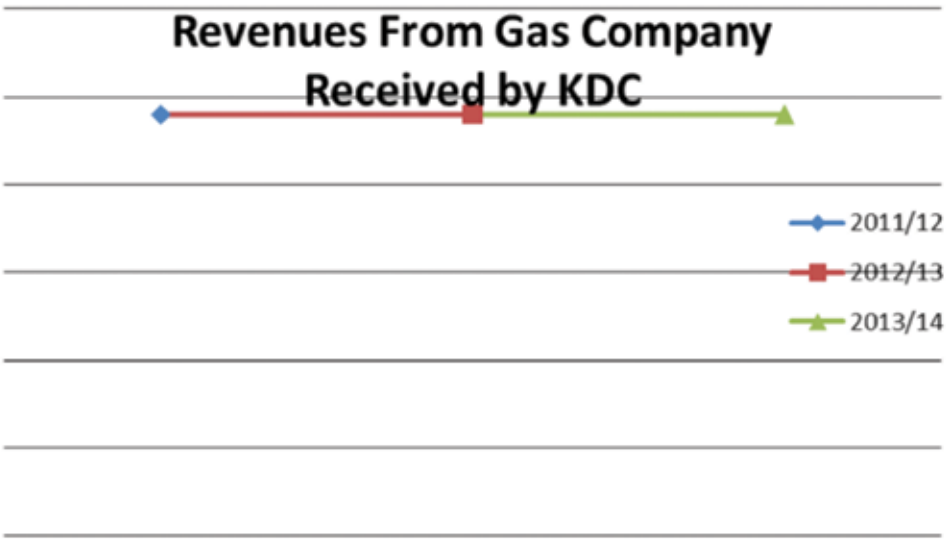
22 Generally TMAA seems to have more capacity in auditing gold mineral resources than gas, if at all

23 The Interfaith Standing Committee on Economic Justice and Integrity of Creation (2015) Pilot Study on Extractive Industry Revenue Expenditure in Kilwa, Tarime and Geita District Councils

***Table 3: Revenues from Gas Company Received by KDC***

| S/n | Year | Source of revenue | Amount received |
|---|---|---|---|
| 1 | 2013/14 | Service levy | 480,000,000.00 |
| 2 | 2012/13 | Service levy | 480,000,000.00 |
| 3 | 2011/12 | Service levy | 480,000,000.00 |
| | | **Total** | **1,440,000,000** |

***Source:*** *Field findings, Kilwa*




## Key Issues and Recommendations

There are a number of issues that arise from the figures above. These are outlined below followed by recommendations.

## Discrepancies between Council and Company Figures

There are discrepancies between what companies report to be paying to LGAs as their fair share of 0.3% of revenue on one side and what LGAs actually receive or report. KDC reported to have received a constant amount of 480,000,000 Tshs for three years above as service levy. In 2013, there was a discrepancy of 15,303,646 Tshs, which is 3.2% of what was reported by the council where the company (Pan African energy) reported to have paid a total of Tshs 495,303,649.07. Similarly in 2012, the company reported to have paid a total of Tshs 406,986,901 a discrepancy of Tshs. 73,013,099, again indicating that the company reported lesser amount than that reported by the council.

Due to the above, it is recommended that there should be reconciliation of the figures from both sources. Policy wise, this calls for the Tanzania Extractive Industries transparency Initiative (TEITI) to investigate the operations at the district level just as it does at the national level assessing what the companies report to have paid to the government against what the government reports to have received[24].

24 The Interfaith Standing Committee on Economic Justice and Integrity of Creation (2015) Pilot Study on Extractive Industry Revenue Expenditure in Kilwa, Tarime and Geita District Councils, July 2015

## District Level Extractive Industry Transparency Initiative is necessary

In the context of the discrepancies mentioned above , there is a need to extend the work of Tanzania Extractive Industries Transparency Initiative (TEITI) to the LGA level. This will be helpful in knowing whether what is reported by investors is the same as what is reported and actually received by LGAs or not.

With likely limited resources and capacity of TEITI to operate at district level, the districts should consider establishing their local 'TEITI' in form of District Extractive Industry Transparency Initiative (DEITI). Capacity building to establish and operate such DEITI will be needed.

## Flat Rate Service Levy is Against the Law

Service levy, according to KDC by-laws (Subsidiary Legislation of the Gazette of the United Republic of Tanzania No. 5 Vol. 89 dated 8th February 2008, table 'G', part (c)[25], page 4) shall be 0.3% of gross annual sale.

Among the issues of concern with the 480,000,000 Tshs constant annual payment for three years is whether the 0.3% of gross revenue law was used. If it was used, it implies that the price of gas and quantities sold in each of the three years was constant. This does not seem to be the case however, given price and quantity volatilities in the market.

Therefore, although the law on the amount of service charge to be paid by gas companies exists, it has apparently not been applied. Unless the actual quantities of gas sold in each of the years and unit price for the same is known, it is not possible to establish whether KDC was underpaid or overpaid in the gas service charge component. What may be the base for the flat rate payment however is the MDAs. However, MDAs were for hard minerals and not gas.

## Importance of Service Levy from Gas in KDC Revenues

In determining the importance of the service levy from gas to Kilwa district's budget, efforts were made to get current figures showing KDC's other actual sources of own revenue so as to compare the same with the gas service levy revenue. Until when this report was written, the figures could not be found. Only figures on the rates for various sources of revenue were found. These are used as a proxy for revenue in KDC and are compared with the fixed service levy of 480,000,000 Tshs reported by the council to have been collected from the gas company. Compared to other revenue sources for KDC, the 480,000,000 Tshs per year service levy looks very big. For comparison purposes, other rates of revenues for KDC are shown in the table below.

25 Ushuru wa huduma ya gesi (gas service levy)

***Table 4: Revenue Sources and Rates For Various Sources in KDC***

| S/n | Revenue Source | Rate (Tshs) |
|---|---|---|
| 1 | Application for advertisement | 3,000 |
| 2 | Advertisement fee for none-shining advertisement (per square meter) | 500 |
| 3 | Shining advertisement per square meter | 1,500 |
| 4 | Billboard annual fee | 10,000 |
| 5 | Daily advertisement fee using loudspeakers | 20,000 |
| 6 | Fees for selling cows in council market | 500 per cow |
| 7 | Fees for selling goats/sheep in council market | 300 per cow |
| 8 | Sea products levy | 5% of price |
| 9 | Logs and wood levy | 5% of price |
| 10 | Agricultural products levy | 5% of price |
| 11 | Taxi parking charge per year | 60,000 |
| 12 | Mini buses (25 passengers) annual parking fee | 120,000 |
| 13 | Large buses annual parking fee | 180,000 |
| 14 | Lorries (6 to 10 tones) annual parking fee | 240,000 |
| 15 | Pick up annual parking fee | 60,000 |
| 16 | Bus stand entry fee for saloon cars per trip | 200 |
| 17 | Annual business vehicles registration fee | 20,000 |
| 18 | Grade one council house monthly rent | 10,000 |
| 19 | Grade two council house monthly rent | 7,500 |
| 20 | Grade three council house monthly rent | 5000 |
| 21 | Business stalls around bus stands and markets monthly fee | 6000 |
| 22 | Public toilet use fee per person | 100 |
| 23 | Business stalls monthly fees inside council market | 3000 |
| 24 | Business stalls monthly fee for sale of used clothes | 12,000 |
| 25 | Fee for slaughter and inspection of cow | 1,500 |
| 26 | Fee for slaughter and inspection of goats and sheep | 600 |
| 27 | Market fees for sale of tomato, fish, maize, rice, millet, beans, potatoes, carrots, banana, vegetables, fruits, chicken, industrial products per day | 200 |

| | | |
|---|---|---|
| 28 | Market fees for sale of used clothes bale | 5% of sales price |
| 29 | Crop cess for sunflower, cashew nuts, oranges and banana | 5% of sales price |
| 30 | Sand and stones levy | 1000 per trip |
| 31 | Gas services levy | 0.3% of gross annual sales revenue |
| 32 | Salt service levy | 5% of price |
| 33 | Taxi annual fees | 15,000 |
| 34 | Pick up annual fees | 20,000 |
| 35 | Landrover annual fees | 20,000 |
| 36 | Mini bus (commuter buses) annual fees | 25,000 |
| 37 | Large buses fees annual fees | 30,000 |
| 38 | Business license application fee | 1000 per form |

***Source:*** *Kilwa District Council By-laws, March 2005*

## Key Issues and Recommendations

In what follows, a number of issues related to the 0.3% rate of gas service levy in comparison to the other rates of revenues in KDC are discussed.

## It is a smaller rate but larger revenue

The 0.3% charged as gas service levy may be viewed as a smaller rate compared to the 5% charged on sea, logs, wood products, crop cess and salt fees. However, the 0.3% charged as gas service levy for annual gross revenues will most likely bring more revenue to the council than the 5%.

Mathematically, prices are lower than revenues, because revenues are prices multiplied by quantities sold (R = P x Q).Therefore, charging a fixed percent to a price (as is the case for the sea levy and the logs and wood levy) results in lower levy amounts than charging based on revenue (which is the case for gas service levy).Gas levy will thus most likely bring in more revenue due to the large volume of gas sold as well as higher per unit price compared to the other products

## Gas service levy as single largest source of revenue

Given the relatively low rates for the various sources of revenues in KDC on one hand and the 480,000,000 Tshs received per year from the gas service levy on the other, the gas service levy is likely to be the single biggest source of own revenue to KDC. This does not however mean that the council is optimizing on this important source of revenue, because the 0.3% rule does not seem to have been applied.

If applied, there are possibilities of the council accruing more than the 480,000,000 Tsh annual revenue assuming that substantial amounts of gas are and will be sold at high prices as demand for the same increase especially in Dar es Salaam. It is important therefore for all parties (KDC, PAT and the central government) to ensure that the 0.3% gas service levy by-law is enforced properly.

## Gas service Levy in Relation to Other Sources of Revenue

The research informing this report aimed at identifying the extent to which service levy from natural gas contributes to LGAs' budgets. Apart from looking at the proportion of the revenues from the levy to KDC's own sources of revenues, the study compared the service levy with other sources of funds in the council's budget. It is important to note that LGAs depend heavily on central government funding for their budgets. Therefore various budgetary funds from the central government to KDC were compared with the revenues from the natural gas service levy. In general, revenue arising from service levy dominates other sources of revenue in KDC as indicated in table 5.

***Table 5: Other Selected Sources of Revenue in KDC***

| S/n | Sources of Revenue | Amount (Tsh) | % of Gas Service Levy[26] | Gas annual service levy greater time |
|---|---|---|---|---|
| 1 | OC Received in February 2012[27] of which Allowance for new teachers | 160,618,159 | 33.5% | 3 |
| | | 15,316,659 | 3% | 31.3 |
| | Education | 22,423,000 | 4.7% | 21.4 |
| | Health | 46,064,000 | 9.6% | 10.4 |
| | Water | 25,446,000 | 5.3% | 18.9 |
| | Agriculture | 14,799,000 | 3% | 32.4 |
| | Construction | 18,982,000 | 3.9% | 25.3 |
| | Administration | 17,587,50 | 3.7% | 27.3 |
| | | | | Average for sector allocations: 23.9 |

26 480,000,000 Tshs in this case based on the study findings

27 Source: Letter from KDC treasurer on revenues received as Other Charges (OC). See letter dated 14th February 2012, Ref. KDC/KDC/FEDH/VOL.1/91

***Revenue in KDC***

| | **Funds Received From Various Other Sources[28]** | | | |
|---|---|---|---|---|
| **1** | LGCDG[29] | 217,614,500 | 45.3% | 2.2 |
| **2** | Dev Catalyst Fund | 36,535,130 | 7.6% | 13.1 |
| **3** | LGCBG | 187,794,000 | 39.1% | 2.5 |
| **4** | ACBG | 27,519,028 | 5.7% | 17.4 |
| **5** | HIV/AIDS | 99,097 | 0.02% | 4843.7 |
| **6** | Basket | 122,083,350 | 25.4% | 3.9 |
| | **Total** | **566,877,979** | **1.2%** | **84.7%** |
| | **OC Received in October 2012 For Various Uses[30]** | | | |
| 1 | Water | 8,482,000 | 1.8% | 566 |
| 2 | Administration | 29,381,000 | 6.1% | 16.3 |
| 3 | Agriculture | 11,691,000 | 2.4% | 41.1 |
| 4 | Health | 15,355,000 | 3.2% | 31.3 |
| 5 | Secondary Education | 20,798,000 | 4.3% | 23.1 |
| 6 | Primary Education | 26,302,000 | 5.5% | 18.2 |
| 7 | Construction | 6,354,000 | 1.3% | 75.5 |
| | **Total** | **118,363,000** | **24.7%** | **2.1** |
| | **Total funds received by KDC:** Funds received by KDC in December 2011; January 2012; February 2012 and October 2012 | **845,859,138** | **176.2%** | **0.57** (i.e the funds are 1.8 times the annual gas service levy revenue |

**Source:** KDC field data and author's computations

## Key issues and Recommendations

Building on the findings above, several issues come to light and are discussed below.

## Marginal but more predictable sources

The non-gas revenues for KDC may seem lesser than the service levy paid by the gas companies which is TZS 480,000,000/- per year, but most of these other sources are more stable and predictable than gas revenues which will come to an end once reserves are depleted.

28 480,000,000 Tshs in this case based on the study findings

29 Source: Letter from KDC treasurer on revenues received as Other Charges (OC). See letter dated 14th February 2012, Ref. KDC/KDC/FEDH/VOL.1/91

30 Source: KDC Treasurer letter dated 14th November 2012, Ref. KDC/FEDH/VOL. 1/64

It is hence recommended to improve these non-gas sources of revenue For instance, revenues from gas should be used to establish and enhance the other more predictable and foreseeable sources including investments in income generating activities like construction and improvement of markets, purchase of construction equipment for hire, guest houses, buying shares in various publicly listed companies, investing in endowment funds.[31]

## Expenditure of Revenues from Gas in Kilwa District Council

Although the study informing this report focused on the revenue side of the budget with a focus on natural gas service levy revenue, it is important to also look at the expenditure side briefly. According to Ngowi (2015)[32] the gas revenues that KDC receives from PanAfrican Energy are used for various development and recurrent expenditure posts. The expenditure pattern is partly elaborated in the table below.

***Table 6: Expenditure of Gas Revenues in KDC***

| S/n | Year | Areas of expenditure | Amount spent in specific areas | % of gas revenue (480,000,000) |
|---|---|---|---|---|
| 1 | 2010/11 | Construction of DED house | 30,000,000.00 | 6.3 |
| 2 | 2011/12 | Buying of standby generator | 56,000,000.00 | 11.7% |
| 3 | 2012/13 | Rehabilitation of theatre at Kivinje hospital | 21,000,000.00 | 4.4% |
| 4 | 2013/14 | Construction of staff house | 63,000,000.00 | 13.1% |

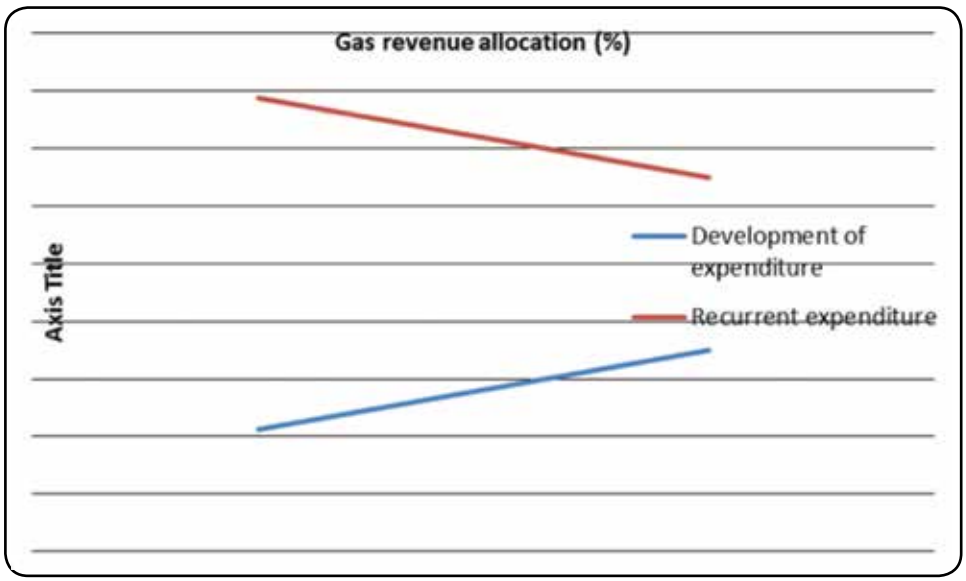
***Source:*** *Field findings, KDC, September 2014*

Apart from the specific expenditures above, it was reported from KDC that the following were the allocation of gas revenues for the2013/14 and 2012/14 financial years:

| S/n | Year | Development expenditure | Recurrent expenditure |
|---|---|---|---|
| 1 | 2013/14 | 35% | 65% |
| 2 | 2012/13 | 21.2% | 78.8% |

31 There was limitation in obtaining figures for total own revenues of KDC. However, the funds received by KDC in December 2011; January 2012; February 2012 and October 2012 are used as a baseline to show the importance of gas service levy revenue in the council's budget. The total revenues for the few months above are well above the TZS 480,000,000. When all other sources of funds are available and added, the importance of the levy as a proportion of the total KDC revenue will be dwarfed. Therefore, the gas service levy revenue appears big as a single source of own revenue for the council but not as a proportion of the total revenue.

32 Pilot study on extractive industry revenue expenditure in Kilwa, Tarime and Geita district councils. A Study for the Christian Council of tanzania




## Key Issues and Recommendations

A number of key issues based on the findings in the table above are outlined below.

## There is small proportion of development expenditure

The reported expenditures in the first table above do not showcase the most effective way of spending revenues from non–renewable and depletable resources like gas. This is because on average, about 8.8% of the gas revenue has been devoted to development expenditure. It means that 91.2% of the revenues went to recurrent expenditure.

Drawing from the above, a recommendation is made that at least 50% of the accrued funds be invested in development expenditure rather than on recurrent expenditure as it is for now. This recommendation is based on the fact that investing in development projects yield long lasting impact than investing in recurrent spending. Development expenditure could focus on areas like economic and social infrastructure such as roads, health, education and water facilities as well as in training and retraining as a way of human resources development.

## No direct investment in human capital

In the expenditure distribution above, (construction of staff house, rehabilitation of theatre at Kivinje hospital, buying of standby generator and construction of DED house), there is no expenditure in direct human capital development by way of investment in education and health software (training). Neither is there investment in economic infrastructure in the form of roads, or social infrastructure in the form of water.

It is recommended that investment in human capital using revenues from natural gas service levy be among priorities in LGAs budgets. This is because human capital is the best and most valuable available resources. Investing in it properly therefore is key in developing all other resources.

## No expenditure in Income Generating Activities (LGAs)

Analysis of the expenditure allocation above shows that KDC has not used gas revenues to invest in income generating activities (IGAs) for the council. It is known that gas-based revenues will dry up when these non-renewable resources deplete. It is therefore recommended to invest some of the funds from natural gas service levy in IGAs for the council. The IGAs could include construction of guest and rest houses within and outside the council, investment in construction equipment for hiring out on profit and use in council's own works, buying shares in strong publicly listed companies, and establishing municipal bonds.

KDC could also invest revenues from gas in a way that would generate perpetual incomes. This can be in the form of revolving funds, future funds, and/or endowment funds for current and future generations taking into account short, medium and long term intergenerational considerations. The power for LGAs to invest funds is enshrined in the Local Government Finance Act 1982. Section 38 of Part II of the Act states among other things that:

*"Subject to the provisions of this Act, a local government authority may invest any part of the moneys available in any fund of the authority in such investments as are authorized investments in relation to investment of funds by a trustee under the Trustees Investments Act."*

Having seen the findings from Kilwa, the section that follows is on the findings from Mtwara District Council to be followed by general conclusions and recommendations.

## Findings From Mtwara District Council

In what follows, findings from Mtwara District Council (MDC) are presented, analyzed and discussed. To avoid repetitions, the general issues that have been covered above are skipped here.

## Extractive Industry (gas) Companies Operating in MDC

Only one company which is M & P is currently operating in MDC and paying gas service levy. Other companies are at exploration stage and therefore do not pay gas service levy which is based on amounts actually produced. Given the number of companies conducting exploration and the expected volume of gas, MDC stands to potentially benefit a lot in terms of gas service levy which is 0.3% of gross annual gas sales.

## Amount of Service Levy Paid

According to the field findings, the company (M & P) started paying gas service levy to MDC in financial year 2011/2012. The amount of gas service levy paid by the company from 2011 to 2015 is as follows (payment is done after every three months i.e quarterly)

***Table 8: Gas Service Levy Paid to Mtwara District Council***

| | 2011/2012 (Tshs) | 2012/2013 (Tshs) | 2013/2014 (Tshs) | 2014/2015 (Tshs) |
|---|---|---|---|---|
| **Q1** | 9,965,901.91 | 4,986,125.88 | 5,678,321.65 | 6,975,246.90 |
| **Q2** | 17,418,047.31 | 4,609,873.39 | 6,152,636,45 | 6,436,123.18 |
| **Q3** | 4,798,322.48 | 4,676,470.76 | 6,475,552.78 | Not yet Jan- March'15 |
| **Q4** | 4,396,576.22 | 4,191,694.92 | 7,302,941.33 | Not yet April- June '15 |
| **Total** | 36,578,847.92 | 18,464,164.95 | 25,094,452.21 | 13,411,370.08 |

***Source:*** *MDC field data, March 2015*

## Key issues and Recommendations

Contrary to Kilwa District Council, MDC has reported to be paid its share of gas service levy based on the 0.3% rate rather than on a flat rate (which was reported to be 480,000,000 Tshs per annum in KDC). This shows inconsistency and lack of uniformity in paying the service levy. Similar to KDC where the levy was first paid to Ilala District Council, the levy for MDC was paid to Mtwara Mikindani District Council.

It is therefore recommended that there should be consistency and uniformity across the LGAs in as far as application and enforcement of existing revenues (and other) laws and by-laws is concerned. A similar recommendation on paying the levy to the LGA where actual production is taking place that was given for the case of Kilwa is echoed here.

## Service Levy from Companies that Provide Goods and Services to the Gas Companies

According to the field findings, there are no companies located in MDC that provide goods and services to oil and gas companies that are located in the council. Therefore MDC does not get service levy from the companies supplying these services because these are not located in the MDC jurisdiction.

As a way of recommendation, it is important to ensure not only local content but also local-local content by way of having enterprises locating and conducting business in specific jurisdiction (in this case MDC) thereby increasing revenues and local economic development in the councils. Since the capacity of such local enterprises to supply goods and services to the multinational investors in natural gas in Mtwara is obviously low, there is a need for concerted efforts to build such capacities. Short of that, there will be a lot of services supplied by enterprises not located and not producing within Mtwara District Council. The council will therefore not benefit much from all the revenue and local economic development potentials embedded in the companies investing in natural gas resource endowment in MDC.

## Other Sources of Revenue for MDC

*According to the field findings, the main source of own revenue to the council is produce cess from cashew nuts. The following are the revenues collected from this source from 2010/2011 to 2014/2015 financial years.*

***Table 9: Crop Cess Revenue for MDC***

| S/n | Years | Crop cess (Tshs) |
|---|---|---|
| 1 | 2010/11 | 450,471,580.5 |
| 2 | 2011/12 | 1,159,466,290.5 |
| 3 | 2012/13 | 337,871,360 |
| 4 | 2013/14 | 358,862,582 |
| 5 | 2014/15 | 932,562,773 |

***Source:*** *MDC field data, March 2015*

## Comparing Crop Cess and Gas Service Levy in MDC

*In order to assess the relative importance of gas service levy as one of the sources of revenue for MDC, a comparison is done between gas service levy on one hand and crop (cashew nuts) cess on the other.*

***Table 10: Comparing Gas Service Levy and Crop Cess***

| S/n | Years | Gas service levy | Crop cess | Gas service levy as % of crop cess |
|---|---|---|---|---|
| 1 | 2010/11 | | 450,471,580.5 | |
| 2 | 2011/12 | 36,578,847.92 | 1,159,466,290.5 | 3.2% |
| 3 | 2012/13 | 18,464,164.95 | 337,871,360 | 5.5% |
| 4 | 2013/14 | 25,094,452.21 | 358,862,582 | 7% |
| 5 | 2014/15 | 13,411,370.08 | 932,562,773 | 1.4% |

***Source:*** *Computed and analyzed by the author*

## Key Issues and Recommendations

A number of issues have been captured from the above table. These are outlined and discussed in what follows.

## Gas is not yet a cash cow for MDC

From the figures above, gas service levy revenue forms a small portion of crop cess revenue. For the years where data for the two sources of revenue are available (2011/12 to 2014/15), gas service levy revenue forms about 4.3% of the crop cess revenue on average. It can therefore be said that gas service levy is not yet a cash cow for MDC. When the current massive explorations result in full production however, there are huge prospects for gas service levy revenue to be a cash cow for MDC.

As a recommendation, given volatility in the price of natural gas and given that natural gas is a non-renewable extractive however, it is important for MDC to not abandon cashew nut which is a substantial source of revenues for the council through crop cess. This cess is charged at the rate of up to 5% of farm-gate price of the crop. Investing in developing this crop therefore is very essential. This includes investment in the whole value chain of the crop.

It is also important to manage expectations. There have been many and high hopes and expectations that revenues from natural gas will be the game changer by way of providing revenues. Given the current fact that gas is not yet a cash cow for MDC, it is important that expectations are realistic and well managed.

## Gas as future cash cow for MDC

The future in terms of gas service levy being a major source of revenue even beyond crop cess is bright. This is based on the fact that there is colossal commercial quantity of natural gas discoveries in Mtwara. However, a number of conditions need to be fulfilled. The future will be bright if all the companies doing exploration start drilling and selling huge volumes of gas and if the per unit price of gas is 'good'. This will imply huge revenues whose 0.3% will be paid to the council.

On top of natural gas, if oil is found in MDC and the 3% share to LGAs is effected, there can be huge cash inflows to MDC. The most important thing will then be absorption capacity and prudent management and use of the revenues. Typically one would propose that the funds are used in such a way that they will be the game changer in the lives of people of MDC. This includes using the funds for inter alia investment in infrastructure, investment in human capital and investment in income generating activities (IGAs) with the future generation in mind.

## Laws, by-laws and Provisions that Govern Collection of Service Levy

The Local Government Finance Act of 1982 (section 290) governs the collection of gas service levy in MDC. Also the council uses by-laws that have been enacted (Section 7(1) and 16 (1) of the 2009 by-laws. The section empowers the council to collect service levy to the tunes of 0.3% of gross annual sales based on the quantity of gas that is sold.

## Weaknesses in the laws and by-laws

According to the key informant in MDC, there are some weaknesses in the laws, by-laws and provisions that govern collection of service levy from extractive companies. For example, by not having the natural gas law/act in place, the council is unable to enact a by-law to collect service levy from the companies that are providing services the gas companies.

Therefore, if the government enacts the law, it will enable the council to enact the said by-law thereby increasing its revenues and by extension increasing its ability to provide public goods and services. It is therefore recommended that the government enacts the natural gas law soonest so as to enable the LGAs with natural gas resource

endowment to enact their natural gas by-laws that may help in increasing the revenues of these LGAs.

## Procedures in Collecting Levy

Generally, service levy is collected by the council's staff based on various approved rates. For gas service levy however, the council sends an invoice to M&P (the company producing natural gas in MDC). The company then makes payments by cheque to the council after every three months (quarterly).

## Expenditure of Gas Service Levy Revenue in MDC

According to the key informant in MDC, the revenue from gas service levy goes to the general fund and is used for normal council expenditure such as provision of various goods and services including education, health, water and infrastructure among others.

## Key Issues and Recommendations

As was pointed out in the case of Kilwa, revenues from natural gas – as is the case with revenues from other depletable, non-renewable extractive resources – are peculiar kinds of revenues. Once exploited, the country (and LGAs for that matter) becomes poorer. The best way to ensure that revenues from such resources are put to better use includes ensuring that part of it is invested in development expenditure as well as in IGAs. This has been highly emphasized in the Kilwa case study. Similar arguments apply here.

## Legal Framework that Guide Expenditure of the Service Levy Revenue

According to key informants in MDC, the council does not have specific laws, rules, by-laws or provisions on how to spend revenues from service levy. Expenditure is generally guided by the Local Government Finance Act of 1982.

## Key Issues and Recommendations

Based on what has been emphasized on the expenditure of revenues from natural resources, there is a need for laws, by-laws and regulations that will guide how revenues from gas service levy will be used at LGAs level. It is recommended therefore that the environment for such laws, by-laws and regulations to be developed and most importantly to be enforced is in place.

# GENERAL CONCLUSION AND RECOMMENDATIONS

Based on the findings from the two case study districts, the following general conclusions and recommendations are made.

## Conclusion

Based on the findings in Kilwa and Mtwara district councils it is concluded that;

i. Natural gas service levy was not being paid to the LGAs as stipulated in the law before some interventions.

ii. Natural gas service levy is an important potential and actual source of own revenue for financing the councils budgets.

iii. Natural gas service levy is not the only source of revenue for the study LGAs.

iv. The other sources of own revenue for the LGAs should not be neglected but developed and enhanced.

v. Revenues from natural gas have not been used for development expenditure.

vi. Revenues from natural gas have not been used to generate further revenues through Income Generating Activities (IGAs).

## Recommendations

Based on the findings in Kilwa and Mtwara district councils it is recommended that;

i. For the LGAs that have natural resources endowment such as the natural gas in Kilwa and Mtwara to benefit from revenues due to them from the companies producing in their jurisdiction, the Local Government Finance Act of 1982 should be properly enforced for the benefit of the LGAs.

ii. Natural gas service levy should be paid to the LGAs where the companies are producing as stipulated in various laws and by-laws.

iii. Since natural gas service levy is an important potential and actual source of own revenue for financing the councils' budgets, there is a need to have policy, legal and regulatory environment in which the potentialities are actualized.

iv. Since natural gas service levy is not the only source of revenue for the study LGAs, these LGAS should not neglect but rather develop and enhance these other sources because of their importance and due to price volatility and the depletable nature of natural gas.

v. It has been found that revenues from natural gas have not been used for development expenditure. This is not economically good therefore the LGAs should invest these revenues not only in expenditure but also in development expenditure.

vi. It has been found that revenues from natural gas have not been used to generate further revenues through Income Generating Activities (IGAs). For the sake of sustainable and continuous inflow of revenues to the LGAs' coffers, it is important for LGAs to invest some of these revenues in IGAs.

vii. With the massive discovery of natural gas and hopefully oil, there are prospects for huge revenue inflows into the LGAs coffers. It is recommended that these LGAs get capacity building on the prudent use of the expected funds as well as building and enhancing their absorption capacities.

## Areas for further research

There are a number of issues that need more research based on this study. These include but are not limited to the following:

i. There is a need to update this study over time in order to establish a long term situation of the contribution of natural gas service levy in the LGAs' budgets.

ii. With the massive discovery of natural gas in Mtwara by various companies there is a need to follow up and document over time the contribution of each of these companies to the LGAs budgets when natural gas production starts.

iii. Since there are prospects for oil discoveries, there is a need to follow up and see how revenues from this liquid gold will contribute in the LGAs budgets.

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