Natural Resource Governance Institute

Resource Governance Index

2021 Resource Governance Index Tanzania

Oil and Gas

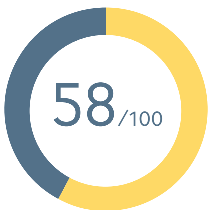
Tanzania's oil and gas sector has scored 55 out of 100 points in the 2021 Resource Governance Index (RGI), registering a 2-point increase since the 2017 RGI. This improvement is largely owing to the country's gains in the governance of revenue management. Nevertheless, revenue management remains in the "weak" performance band alongside value realization and the broader enabling environment.

- Tanzania's governance of oil and gas sector taxation registered as "good". Despite the stronger performance in taxation, overall value realization remained in the weak band, owing to poor governance of licensing, particularly the absence of a cadaster and contract disclosures.
- The governance of local impacts warrants attention as a lack of rules and disclosures related to environmental and social impact assessments and mitigation plans prevents the Tanzanian public from understanding the environmental and social effects of the country's gas industry.
- Tanzania's Oil and Gas Fund, now partially operational, demonstrates a strong legal framework governing investment rules and financial reporting.
- The new administration's pledge to create a business-friendly environment for gas investors provides the government with the opportunity to leverage LNG reserves to capitalize on opportunities created by the global energy transition, in which many see natural gas playing a key role.

Tanzania oil and gas: 2021 Resource Governance Index and component scores

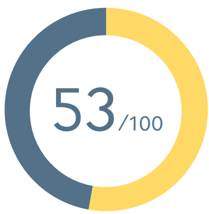
PERFORMANCE BANDS

GOOD Scores over 75
SATISFACTORY Scores 60-74
WEAK Scores 45-59
POOR Scores 30-44
FAILING Scores under 30



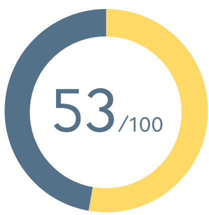
VALUE REALIZATION

Measure of the quality of governance regarding allocating extraction rights, exploration, production, environmental protection, revenue collection and state-owned enterprises



REVENUE MANAGEMENT

Measure of the quality of national budgeting, subnational resource revenue sharing and sovereign wealth funds



ENABLING ENVIRONMENT

Measure of the general quality of governance in the country

2021
Resource Governance Index

RESOURCE GOVERNANCE INDEX RESULTS SUMMARY

Weak revenue management, value realization and enabling environment scores lead to an overall weak score, but with some signs of improvement since the 2017 RGI

Tanzania has been producing gas for domestic consumption from its onshore reserves since 2004 and has the potential to become a major producer and exporter of natural gas with negotiations of the USD 30 billion LNG project to resume in 2021. Meanwhile crude oil is imported as no crude oil discoveries have been made to date. President Hassan has made developing the gas sector a key priority of her five-year term in office. With a new focus on gas developments in the country, Tanzania should double down on oil and gas governance commitments. To ensure that citizens receive the best deal for their hydrocarbon resources, several policy areas merit attention.

Tanzania's gas sector placed in the weak performance band by scoring 55 points in the 2021 RGI, up by 2 points since the 2017 RGI. Within the index's value realization component, the lack of a centralized online cadaster, contract disclosures and disclosures related to social and environmental impacts of extraction all led to "failing" marks. These must be improved if citizens are able to hold their government to account, especially given the new LNG projects due to start production in the near future.

Tanzania oil and gas sector 2017 and 2021 Resource Governance Index scores

	2017 RGI Score	2021 RGI Score	Trend
RGI COMPOSITE SCORE	53	55	2
VALUE REALIZATION	65	58	-7
Licensing	48	39	-9
Taxation	92	89	-3
Local impact	54	44	-10
State-owned enterprises	64	61	-3
REVENUE MANAGEMENT	40	53	13
National budgeting	40	44	4
Subnational resource revenue sharing	.	47	.
Sovereign wealth funds	.	67	.
ENABLING ENVIRONMENT	53	53	0
Voice and accountability	67	54	-13
Government effectiveness	48	29	-19
Regulatory quality	61	45	-16
Rule of law	62	50	-12
Control of corruption	44	64	20
Political stability and absence of violence	56	56	0
Open data	35	73	38
LAW	77	67	-10
PRACTICE	49	49	0
GAP (PRACTICE LESS LAW)	-28	-18	-10

VALUE REALIZATION

Tanzania's ability to realize value from the gas sector has deteriorated

Value realization placed in the "weak" performance band, scoring 58 points out of 100 - 7 points less than in the 2017 RGI. Although the law requires the government to publicly disclose all signed licenses/contracts with oil and gas companies, the government has not adhered to this, with state-owned oil company Tanzania Petroleum Development Corporation (TPDC) previously refusing to provide copies of production sharing agreements to the parliamentary committee for energy and minerals even after specific requests. This weakens citizens' ability to scrutinize critical information about potential benefits from oil and gas finds.

Financial interest disclosure also remains a concern. The government does not require government officials to publicly disclose their financial holdings in oil and gas companies, leaving room for possible conflicts of interest in the licensing process. Meanwhile beneficial ownership disclosure is limited despite the law requiring it, with companies that do disclose information providing only legal ownership details—not always the identities of the actual, human owners.

In the local impact subcomponent, extractive companies or the government have not disclosed any environmental mitigation management plans despite being required to do so by law. Nor is this information published on any of the government's websites, signalling little protection for local communities affected by oil and gas projects. Rules governing compensation to land users and owners place in the "failing" performance band owing to the absence of a legal framework governing resettlement. This could leave local communities in the crosshairs of the upcoming LNG project especially vulnerable.

As a state-owned enterprise, TPDC recorded a "satisfactory" score of 61, down by 3 points since the 2017 RGI. TPDC should disclose more information on its non-commercial activities; publish costs and revenues derived from its subsidiaries; and disclose its code of conduct. Together, these improvements could boost its credibility among investors, allowing access to capital and public-private partnerships, especially given the heightened interest in Tanzania's LNG reserves amid the global energy transition away from oil.

REVENUE MANAGEMENT

Revenue management has shown improvements since the 2017 RGI, but a lackluster performance for national budgeting and subnational resource revenue sharing has resulted in a "weak" score of 53

Although revenue management in Tanzania's oil and gas sector improved by 13 points in the 2021 RGI, it remains in the "weak" performance band, scoring 53 points. Issues remain in the governance of national budgeting and transparency, wherein the government has yet to establish an online data portal disclosing reserves, production and exports.

Section 8 of the country's Oil and Gas Revenue Management Act established the Oil and Gas Fund, which was assessed for the first time in the 2021 RGI. Although the operations of the fund have started only partially, the government has established a good legal framework, which clearly specifies in which asset classes fund managers will be able to invest, and which also establishes requirements on reporting. The government can further enhance the legal framework by setting firm numerical rules governing the size of deposits into the fund. Once the fund begins operations, it will be crucial to ensure that these laws are upheld in practice and that the government enforces the set rules on transparency so that citizens have oversight over how authorities invest Tanzania's resource revenues.

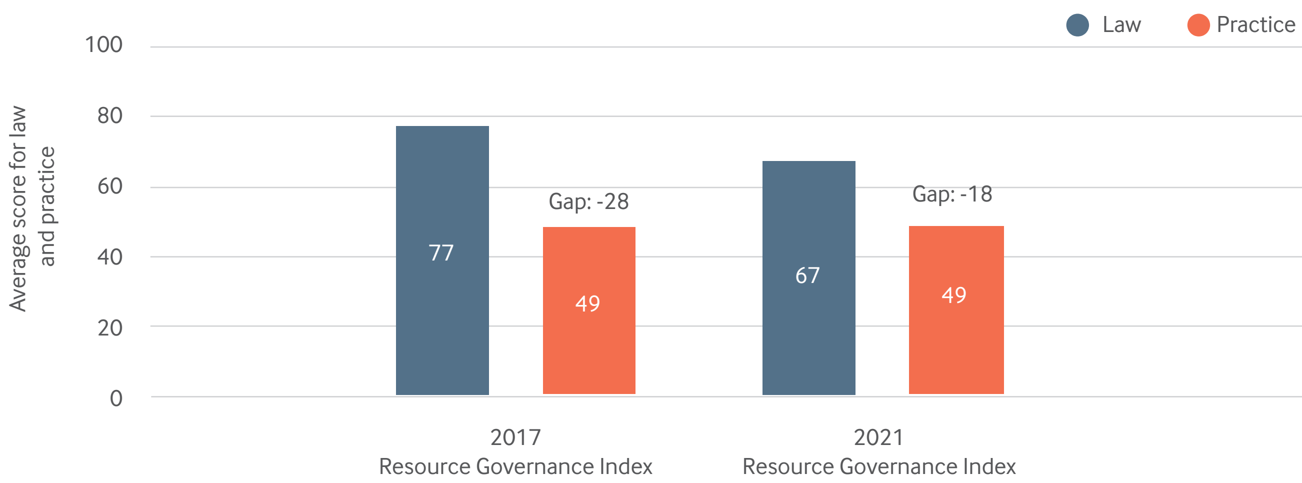
LAW AND PRACTICE SCORES

The gap between laws and practice has narrowed from -28 in the 2017 RGI to -18 in the 2021 RGI, but only due to deteriorations in the legal framework

The "implementation gap" is the difference between the scores received on the strength of the country's legal framework and the actual enforcement of these laws in practice. The law score for Tanzania's oil and gas sector deteriorated by 10 points since the 2017 RGI. The government must ensure that laws are passed governing both the pre- and post-licensing processes to strengthen the overall legal framework of the gas sector.

The implementation gap of -18 points and low practice score of 49 in the 2021 RGI also highlight that the government must ensure the enforcement of passed laws to improve extractive sector governance in practice, rather than just on paper.

Evolution of the gap between law and practice in Tanzania's oil and gas sector



COMPARISON OF THE MINING AND OIL AND GAS SECTORS

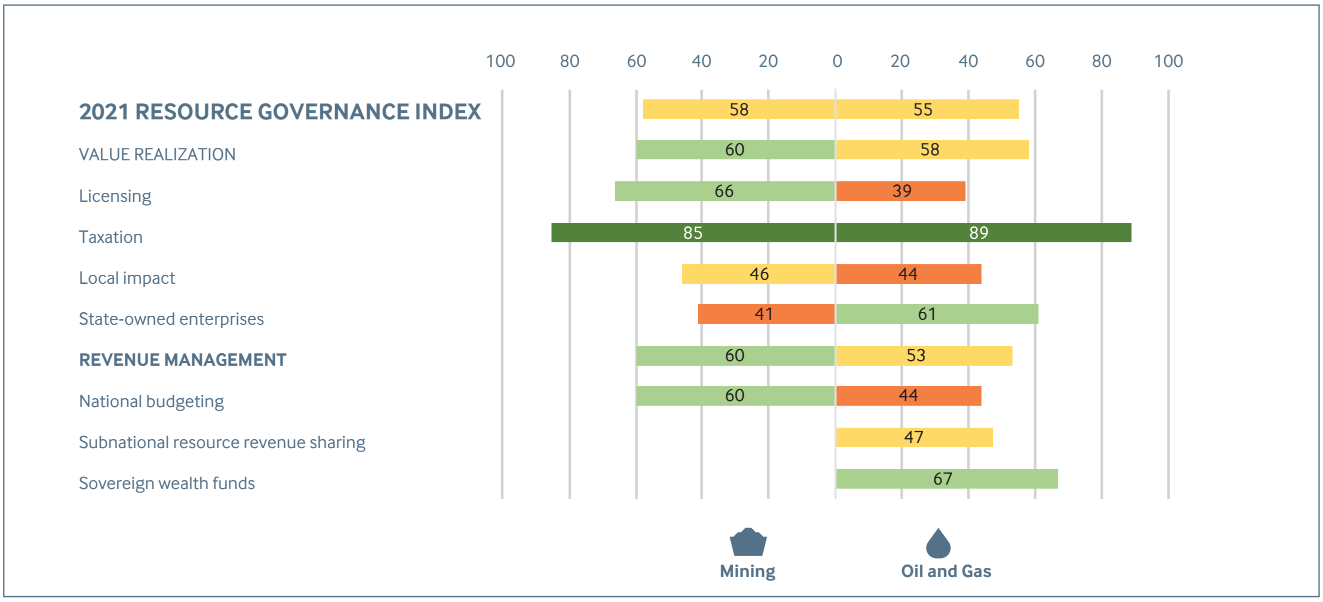
Mining sector shows stronger governance in licensing, but Tanzania Petroleum Development Corporation is better governed than STAMICO

In addition to the oil and gas sector, NRGI has also assessed governance of Tanzania's mining sector (presented in a separate profile). The oil and gas sector scored 55 points in the 2021 RGI, compared to the mining sector's score of 58. Within value realization, the licensing subcomponent differed by 27 points between the two sectors, with the gas sector lagging due to the absence of a centralized cadaster, as well as a less established legal framework relating to both pre- and post-licensing round rules. The mining cadaster scores a full 100 points in the 2021 RGI, and the Tanzanian government should aim to establish an equally model oil and gas cadaster to increase transparency of the sector.

While both the governance of taxation and local impacts is similar across the two assessments, the oil and gas sector performs better in state-owned enterprise governance. TPDC received a score of 61 points in the 2021 RGI mostly driven by strong financial reporting, as well as production disclosures, which are mostly absent in state miner STAMICO's governance.

The Tanzanian government has not yet established an online data portal for the oil and gas sector. While the mining sector online data portal still has room for improvement, especially regarding timeliness of data and accessibility, the government should establish a similar portal showing reserves, production and exports for the hydrocarbon sector, and ensure disclosure of information is up to date. Similarly, the government has not disclosed the revenues from the gas sector in 2019 or 2020 but has done so for the mining sector.

Comparison between Tanzania's mining and oil and gas sectors in the 2021 Resource Governance Index



RECOMMENDATIONS

NRGI recommends the following courses of action for the improvement of gas sector governance in Tanzania:

1. **The Ministry of Energy** should establish an oil and gas cadaster. This would improve public administration efficiency, transparency, and also make it easier for all governmental authorities to upload information into the public domain via an online portal, allowing citizens and other stakeholders to engage in dialogue about how the country's resources are managed. Tanzania's mining cadaster is a relevant example of how this could be done in the oil and gas sector.
2. **Tanzania's parliament** should pass laws requiring senior public officials to publicly disclose their financial holdings and ensure that this is enforced. Doing so can prevent conflicts of interest and help ensure compliance with anticorruption provisions.
3. **The Minister of Energy** should enforce oil and gas contract disclosure rules. Doing so enables citizens to understand the agreed terms of projects and hold each party accountable for non-compliance. It also incentivizes government officials to arrange fair contracts and deters them from concluding contracts that are disadvantageous to citizens.
4. **The Business Registration and Licensing Agency (BRELA)** should prioritize enforcement of beneficial ownership rules. This mitigates the risk of the government going into business with disreputable individuals, and can also prevent tax evasion, ensuring that the country receives the revenues it is owed.
5. **The Ministry of State for the Environment and Vice President's Office** should create a provision for environmental/social impact disclosure rules in legislation and ensure their enforcement, as environmental and social disclosures can help citizens understand whether extractive operators are complying with national legislation and regulation. It can also help companies to build trust with local communities, strengthening their "social license to operate."
6. **The Ministry of Energy** should stand by the commitment to resume project negotiations with investors, which previously stalled due to contentious regulatory, fiscal and local content regulations. This will be crucial to supporting the country's ambitions to supply gas to the region and reduce dependence on imported oil.

What is the Resource Governance Index?

The 2021 RGI assesses how 18 resource-rich countries govern their oil, gas and mineral wealth. The index composite score is made up of three components. Two measure key characteristics of the extractives sector – value realization and revenue management – and a third captures the broader context of governance — the enabling environment. These three overarching dimensions of governance consist of 14 subcomponents, which comprise 51 indicators, which are calculated by aggregating 136 questions.

Independent researchers, overseen by NRGI, in each of the 18 countries completed a questionnaire to gather primary data on value realization and revenue management. For the third component, the RGI draws on external data from over 20 international organizations. The assessment covers the period 2019-2020. For more information on the index and how it was constructed, review the RGI Method Paper.

Natural Resource Governance Institute

The Natural Resource Governance Institute, an independent, non-profit organization, helps people to realize the benefits of their countries' oil, gas and mineral wealth through applied research, and innovative approaches to capacity development, technical advice and advocacy.

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