Country Strategy Note
April 2015

Natural Resource Governance Institute

Tanzania

Minerals and natural gas could potentially provide significant and sustained benefits for the people of Tanzania. Although there is uncertainty surrounding the viability of natural gas projects, it is plausible that government revenues could be as high as $1.4 billion per year during the first ten years of production. These revenues could make a significant contribution to the national budget, which faces a possible decline in grants and concessional loans in coming years,[1] and contribute to human development gains. However, these finds could also pose political and economic risks linked to the resource curse.

We first provide a contextual analysis and use the Natural Resource Charter (NRC) framework to outline key challenges and opportunities that Tanzania faces in harnessing extractive resource wealth for development. We then outline NRGI's strategic response and the four objectives and related reform targets that form the basis for the organization's two-year operational plan.

ABOUT THIS DOCUMENT

This country strategy note summarizes an NRGI analysis of country context and reform priorities. It also outlines NRGI's engagement in Tanzania, complementing the work of other actors. Developments will naturally affect the assessments and objectives described herein. Updates to this synopsis may be made as events require.

CONTEXTUAL ANALYSIS

With recent natural gas discoveries, the government has initiated a series of reforms in order to maximize benefits from the resource. In the mining sector recent policy, legislative and consultative improvements will help the mining sector produce real benefits Tanzanians. While these ongoing reforms give cause for cautious optimism, important challenges remain.

OVERVIEW OF TANZANIA'S EXTRACTIVE SECTOR

Mining

Tanzania's mining sector is the country's most important foreign exchange earner. Gold is by far the most important product, with five gold mines currently operating. Tanzania also has two large-scale mines that produce diamonds and tanzanite, valued in 2013 at $39.6 million and $10.9 million, respectively. A diverse group of international mining companies currently work on these mines. The government increasingly wants to enter joint ventures with the private sector for future projects on coal, uranium and nickel.

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1 IMF, United Republic of Tanzania – Selected Issues, 11 April 2014

Natural Gas

If recent natural gas finds are deemed commercially viable, Tanzania can expect to receive billions of dollars of further investment in the near term, and significant medium and long-term revenues are possible. Seventeen multinational companies have signed 26 production sharing agreements (PSAs) with the government, with 26 petroleum blocks[2] licensed and more pending. Initial successes include gas production for domestic electricity generation and there is potential for gas liquefaction projects producing large quantities for both export and domestic use. However, bringing gas to the market is complex and requires overcoming significant technical, financial, and infrastructural challenges.

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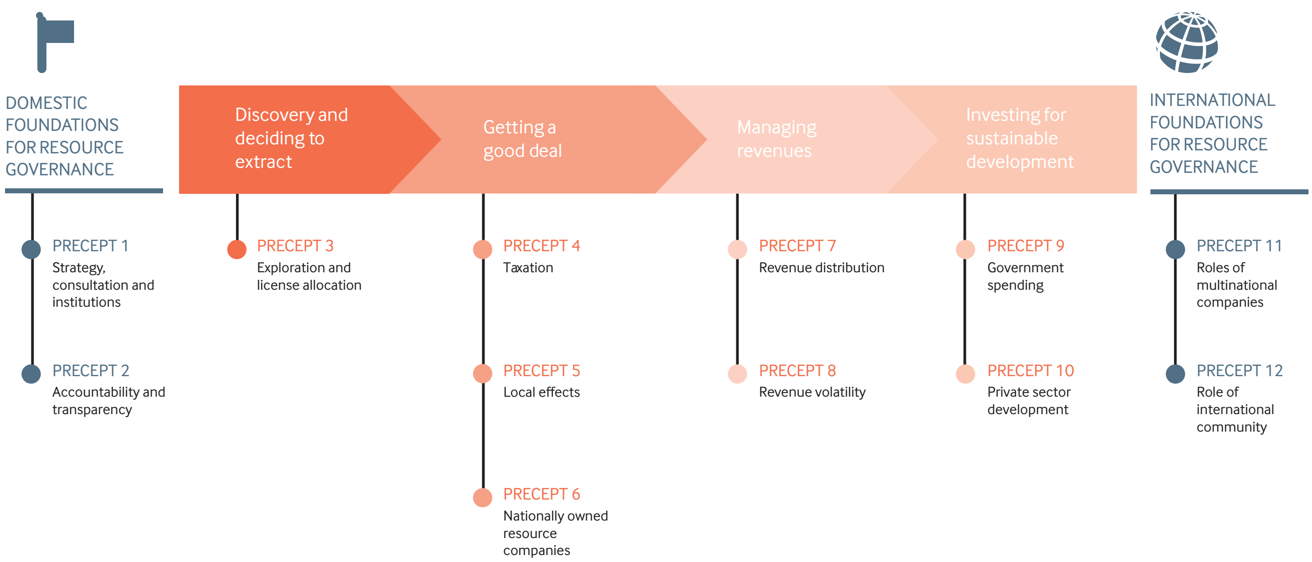
TANZANIA AND THE EXTRACTIVE INDUSTRY DECISION CHAIN

Domestic foundations for resource governance

The following overview and analysis outlines the challenges and opportunities for extractive resource governance using the NRC framework. The NRC's twelve precepts outline the decision-making and governance environment required for effective resource development.

Overview of the Natural Resource Charter



Precept 1: Strategy making and public participation. Resource management should secure the greatest benefit for citizens through an inclusive and comprehensive national strategy, clear legal framework and competent institutions.

Strategy making

The government has not articulated a singular vision for the country's extractive resources that links sector management to revenue management, public spending, private sector development and national development goals. While recent gas finds have precipitated a wave of new reform processes, the pace of reform is expected to slow down due to an ongoing constitutional review and upcoming elections (in fall 2015).

2 Petroleum blocks also cover natural gas exploration

A raft of key strategy documents in natural gas and mining, along with recent long-term plans and national visioning documents, point the way to effectively addressing and meeting the challenges posed by the extractive sector and integrating the vision within the country's broader economic policy. The Tanzania Natural Resource Charter (TNRC), a government-led initiative specifically targeting extractive industries, aims to monitor policy improvements and the impact of the sector on human development as well as assess how natural gas and mining can be used to improve the economy. In addition to this, the internationally-backed Country Mining Vision aims to apply the principles of the Africa Mining Vision to the management of the extractive sector, which will further support the TNRC initiatives.

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Coordination and public involvement

While the government has improved its level of engagement with stakeholders, including non-state actors, communication and policy coordination between ministries, departments and agencies remains poor. Processes exist to ensure that the government systematically consults stakeholders on the development of policies and laws, though sometimes insufficient time is allocated for comment and the government does little to update on new developments.

Precept 2: Accountability. Resource governance requires decision makers to be accountable to an informed public.

Transparent government

Increasing amounts of information are becoming available in the mining sector, while disclosure is more limited in the natural gas sector. The difficulty of accessing information in both sectors means that oversight actors are less able to act as monitors, fueling suspicion among the wider population about the government's management of the extractive sector. Mining and gas contracts are not systematically disclosed. Although the government has made a number of positive gestures regarding contract transparency, these have yet to amount to any real change. Civil society organizations and the media are putting pressure for both new and previous contracts to be made public. International company Statoil publically stated that it would not be opposed to contract disclosure. Two important initiatives, the Tanzania Extractives Industries Transparency Initiative (TEITI) and the Open Government Partnership (OGP), have the potential to spur positive transparency reforms in the country.

Oversight and enforcement

Despite official and non-state oversight over executive actions, corruption remains a serious problem. Audits are a critical tool for parliamentary oversight and budget monitoring, but resource limitations and a lack of specialist knowledge reduce effectiveness. Political accountability is improving, but deep-seated structural challenges, such as the highly partisan nature of politics and short-term nature of administrations' priorities, remain. Frustration at the political process has given rise to increasing confrontations between citizens and the state, as well as politically motivated violence, especially close to large scale mines, and in the gas rich region of Mtwara in the southeast.

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Despite limited capacity and a challenging operating environment the scope for civil society and the media to provide oversight of the government has grown in recent years. Positive developments include the formation of journalist and civil society networks, as well as recent inclusion of religious and youth leaders in the discussion on extractive industries, thereby improving engagement on sector issues at the local level.

However, the fear of undermining good relations with the government means that media and civil society can be surprisingly reticent. Serious investigative journalism and research on extractive issues are in short supply. While part of this is linked to issues of capacity and lack of access to information, there have also been notable incidents of press intimidation in recent years and self-censorship is common.

Discovery and deciding to extract

Precept 3: Exploration and license allocation. Government should aim to reduce geological uncertainty under a transparent licensing regime that allocates rights efficiently.

Geological information

The Geological Survey of Tanzania (GST) holds limited pre-independence data, as well as the results of a 2012 aerial survey which focused mostly around mining areas. Private companies also hold large amounts of data, including pre-independence data as well as their own exploration findings, to which government has limited access. The GST's information is publically available, however data remains crude. The state-run Tanzania Petroleum Development Corporation (TPDC) collects data on surface and sub-surface geology and has access to geological data produced by exploration companies. Petroleum fields are recorded and published online by TPDC.

License allocation

In mining, license areas are clearly delineated and have been assigned to specific entities on a first come, first served basis. License allocation and geological data are publically available on the cadastre database. In petroleum, twenty-five blocks have now been licensed over three competitive bidding rounds, and a further eight blocks are expected to be awarded in the ongoing fourth round. Public debate on licensing has focused over whether the government's capacity to regulate the sector can keep up with the pace at which blocks are awarded. There is a risk for current and potential investors that this issue becomes politicized during the upcoming election campaign, bringing additional uncertainty to the sector.

Getting a good deal

Precept 4: Taxation. Tax regimes and contractual terms should enable the government to realize the full value of its resources consistent with attracting necessary investment, and should be robust to changing circumstances.

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Minerals

There is wide-spread disappointment among Tanzanians that mining deals signed in the late 1990s and early 2000s did not represent good deals for the country. Loss of revenue is compounded by a limited (albeit improving) capacity in contract negotiation, tax administration and auditing. The Tanzanian Revenue Authority is receiving external technical assistance, and the creation of Tanzania Mining Audit Agency (TMAA), which carries out financial, mineral and environmental audits, has also led to increased auditing capacity over mining projects, though lack of cooperation between the two remains an issue. Recently, the government has renegotiated Mining Development Agreements for the Geita gold mine (AngloGold Ashanti) and four other mines (Africa Barrick Gold), to incorporate changes from the 2010 mining act.

Natural gas

While gas production and revenues are not expected before 2020, fiscal terms have already been fixed with companies in current PSAs; these follow regional and international standards. Model PSAs contain relatively standard and balanced fiscal terms, though some of the signed PSAs might diverge from the model. Projected revenues from offshore gas deposits also depend on the outcome of ongoing negotiations on transport, liquefaction and commercialization of natural gas. The lack of contract transparency generates mistrust and sustains a view that companies might have profited from the country's lack of expertise in order to secure particularly generous terms.

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Precept 5: Local effects. Opportunities for local benefits should be pursued, and the environmental and social costs of resource projects should be accounted for, mitigated and offset.

Minerals

Guidelines for mitigating the environmental and social costs of extraction are sometimes inadequate, and not always followed. Firms must have an approved environmental impact assessment (EIA) before commencing production, but there is no requirement concerning social effects. Regulatory frameworks are weak, data is restricted and transparency is limited. In terms of local social and economic benefits, serious problems remain; local communities have weak legal redress in case of grievances or adverse impacts, and there is confusion over responsibility in cases of early mine closures. Conflicts between mining companies, artisanal miners and local communities often lead to violence.

Petroleum

EIAs are required before production can commence. The challenging offshore locations pose important regulatory challenges for the government. If the country moves towards large-scale production, communication and engagement with local communities will be key. While local employment in natural gas production is likely to be limited, integrating natural gas production with local supply chains and domestic gas use could potentially support local areas (at the expense of potentially reducing total government revenues.)

Precept 6: Nationally owned resource companies. Nationally owned resource companies should be accountable, with well-defined mandates and seek to be commercially efficient in the long-term.

Minerals

The State Mining Corporation (STAMICO) has recently been revived to play a role in joint ventures between the government of Tanzania and private companies in gold, tanzanite and coal. The National Development Corporation also has a significant presence. Increased monitoring of and research on their activities, along with improved accountability measures and better access to financial reporting, will be essential to ensure that both bodies support rather than thwart the government's attempts to get a good deal.

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Petroleum

Governance issues concerning the Tanzania Petroleum Development Company (TPDC), involved in all petroleum activities, will have an important bearing on the sector. TPDC has not been demonstrably independent, either financially or operationally, and capacity needs to be built if the national oil company is to operate according to international professional standards. Aside from the restructuring of roles in TPDC, a key concern[3] for the company is its involvement across the natural gas value chain on both independent and joint venture participation in upstream operations. Key issues include the extent of state equity in each asset, ring-fencing of management and finances between assets, the pricing of the natural gas product through the value chain and the amount of gas to be assigned to the domestic market.

Managing the revenues

Precept 7: Revenue distribution. Resource revenues should be invested to achieve optimal and equitable outcomes for both current and future generations.

Minerals

Revenues from mining have not been substantial enough to generate discussions on the future depletion of resources, and have been treated as any other tax revenue in the budget. Regional allocation is made on the basis of spending priorities, rather than on whether regions are home to extraction. Though the central government has historically monopolized fiscal authority in natural resources, recent reforms have attempted to shift the focus to the local level. Most local government areas lack robust revenue sources for financing improved local service delivery, promoting local economic development or encouraging accountability.

Petroleum

Revenues from natural gas are likely to be more concentrated and higher than those from mining; it is therefore critical that Tanzania develop a robust revenue management framework. In 2014, the government committed to passing revenue management legislation, including a sovereign wealth fund, for governing the saving and spending of future revenues. The legislation must also take into account the country's high development needs, intergenerational fairness and demands for transparency and accountability. There is no provision for subnational revenue sharing, but with increased government revenue and high expectations, pressure to spend or transfer locally may increase.

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Precept 8: Revenue volatility. Domestic spending of resource revenues should be smoothed to take account of revenue volatility.

Government revenues have been volatile in the recent past, as have the aid flows on which the budget relies. The country has a limited capacity to cope with such revenue volatility, resulting in public spending volatility, aggravated by multiple overly optimistic revenue forecasts. To date, mining revenues receive no specific treatment to take into account volatility in mineral prices. This might have to change if mining revenues continue to increase. The proposed Natural Gas Fund aims to stabilize government expenditures and raise capacity in market expertise, revenue forecasting and macroeconomic management in order to maintain a sustainable macroeconomic framework.

3 Based on conversations between NRGI staff and the former CEO and Chairman of TPDC; Assistant Commissioner for Gas in Ministry of Energy & Minerals (MEM); and Norwegian Agency for Development Cooperation (NORAD) officials.

Investing for sustainable development

Precept 9: Government spending. The government should use revenues as an opportunity to increase the efficiency of public spending at the national and sub-national levels.

Spending capabilities are constrained by weaknesses in public financial management, though a number of key reforms are on the table. Effective spending of gas revenues will require the government to strengthen its spending administration and the country's infrastructure, to support large-scale spending without inflation, delays or cost over-runs. Government spending appears to be planned fairly well, but these plans are not always followed and lack linkages to budget decisions. Some accountability mechanisms exist, but public access to detailed budget information remains limited. Corruption is a challenge - the success of existing anti-corruption measures in public procurement is questionable and the main anti-corruption agencies are largely ineffective.

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Precept 10: Private sector development. The government should facilitate private sector investments to diversify the economy and to engage in the extractive industry.

The government is pursuing economic diversification and a strong manufacturing sector, with significant investments being made in infrastructure towards this end. The construction and financial sectors appear to be performing well, although business regulations are still particularly onerous. These are being reviewed by the government and some limited reforms have already been made. More will be needed before the private sector can effectively drive growth and diversification.

Preliminary studies suggest that gas resources will be sufficient to supply both the domestic and export markets, but strong local sentiments around the idea that gas should be used locally risk diverting more gas toward local use than needed, potentially reducing the scope for tax revenues. More thinking is required to ensure the government exploits opportunities to develop local suppliers and the labor force in the extractive sector and the government is currently working with the World Bank and other agencies to devise a strategy to increase local content.

International foundations for resource governance

Precept 11: Roles of multinational companies. Companies should commit to the highest environmental, social and human rights standards, and to sustainable development.

Multi-national companies engage with government and civil society through existing forums, notably the TEITI multi-stakeholder group. There remains a lack of trust between civil society, government and companies; establishing collaborative discussions could help mitigate this. Looking ahead NRGI should consider whether companies are committed to meeting the highest operational, environmental, social and human rights standards and whether they are playing a proactive role in developing capacity and best practice in local businesses and the Tanzanian labor force.

Precept 12: Role of international community. Governments and international organizations should promote an upward harmonization of standards to support sustainable development.

Harmonization of standards through regional mechanisms is not a strong possibility at present. Tanzania has taken an increasingly confrontational stance on a number of regional issues, including a recent border issue challenging Malawi's claim to the water of Lake Malawi. Tanzania is part of both the East African Community (EAC) and the Southern African Development Community (SADC), but has increasingly opted out of joining discussions that may lead to deeper regional integration. In the EAC a "coalition of the willing", with Kenya, Uganda and Rwanda, is now moving toward a currency union and may further develop the EAC's provisions relating to natural resource governance. It is unlikely that Tanzania will join these discussions given the current government's stance.

The international community in Tanzania has a wide range of programs to support the government at various stages of the extractive value chain. Coordination is not perfect, despite the presence of coordinating forums including the Energy Development Partners Group, which is now housed by the African Development Bank, and a nascent Extractive Sector Working Group supported by Canada.

STRATEGIC RESPONSE

The goal of NRGI's program in Tanzania is that citizens to benefit from extractive resource wealth. To realize this NRGI will address the challenges and opportunities identified by the contextual analysis and work toward the objectives and related targets outlined below.

Objective 1: More comprehensive, coordinated, and long-term strategy for the management of extractive wealth

- The government develops a comprehensive, coordinated and long-term strategy for managing extractive wealth.
- The government adopts outcome tracking indicators to determine whether gas and mining revenues are contributing to improved human development outcomes.

Objective 2: Improved transparency, oversight and accountability in the extractive sector

- The EITI multi-stakeholder group develops appropriate frameworks and infrastructure for disclosing information in an open data format.
- The government systematically discloses all extractive sector contracts and beneficial ownership information.
- Parliament, civil society and the media effectively oversee the management of the extractive sector, especially around contract disclosure and implementation, long-term strategy, revenue management and the restructuring of the state-owned entity.
- Oversight agencies (PCCB, CAG) are better able to detect corruption in the extractive sector.

Objective 3: Improved extractive sector taxation and revenue management systems achieve the best possible outcomes for current and future generations

- The government, parliament, civil society and media participate in national debate on the management of future extractive revenues, including key provisions relating to the savings rate, fiscal rules, controls of extrabudgetary funds and governance of natural resource funds.
- The parliament passes a bill on natural gas revenue management and monitors implementation of the law.
- The government and regulatory agencies are more responsive to the administrative challenges of taxing large companies.
- Communities are aware of the opportunities and challenges of gas and mineral extraction.

Objective 4: Increased effectiveness and accountability in the management of extractive sector state-owned entities

- The government reforms the regulatory and commercial functions of the state in the petroleum sector.

FUTURE CONSIDERATIONS

The following section outlines areas NRGI may wish to consider in the future, based on opportunities and subject to human and financial resources. We view the strategy development process as one of active learning and will seek to seize new opportunities as appropriate.

Local content

An effective local content policy is crucial if Tanzania is to get the most out of its extractive sector and boost economies linked to extraction. NRGI might consider offering financial and technical support to oversight actors to monitor the development and implementation of the Local Content Policy, relating to oil and gas, which is currently in draft form.

Social and environmental impact

Despite the past experience in the mining extraction in Tanzania, the environment and local communities have not been effectively protected from potential harmful effects of extraction, thus undermining potential economic gains. With incidences of violence on the rise NRGI might also consider offering financial and technical support to oversight actors to monitor the social and environmental impacts of mining projects on local communities.

Loans and investment

With acute investment needs and the infrastructure gap representing a bottleneck for rapid economic growth, Tanzania is likely to use its positive revenue prospects to access non-concessionary loans. The government is currently strongly focusing on this issue and receiving advice from many international actors. NRGI will monitor these developments and make sure that debates filter into the benchmarking assessment. A partnership with the IGC to jointly work on a policy paper on "Investing in Investing" is being considered.

Energy

A potential use of natural gas that could have a great impact on Tanzania's development is domestic consumption for household or industrial use, or downstream processing for energy generation. Given the current energy deficit, there are high expectations within the population that the domestic use of natural gas resources can improve welfare. At the same time, large-scale exports of gas through a liquefaction factory are seen as necessary to justify the massive investments needed for offshore extraction. The exact balance of domestic use versus export is yet to be defined, through rigorous analysis of potential short and long-term national and regional demand, and thorough assessment of energy transport and generation needs. It will also depend on the outcome of further gas exploration, international prices and government policy. The World Bank is supporting Tanzania in developing a natural gas master plan. In the benchmarking process, or as a follow-up analysis, NRGI could envisage working with Columbia University to commission research on infrastructure sharing and downstream processing/use of natural gas. An appropriate local university would be identified to participate in the research as part of building local capacities in the subject area.

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