

## JUKWAA LA UZIDUAJI (TANZANIA EXTRACTIVE INDUSTRIES CONFERENCE) 2019

### “Progress through partnership; collaboration as driver for sustainable development”

#### Background

The extractive sector has the opportunity and potential to positively contribute to all 17 Sustainable Development Goals (SDGs). The sector can foster economic development by providing opportunities for decent employment, business development, increased fiscal revenues, and infrastructure linkages. It is clear, however, that the extractive sector is prone to fiscal leakages; inflated expectations of massive hidden margins can contribute to policy instability and undermine accountability of government to its citizens.

However; proper management of the mining, oil and gas sub-sectors (Extractive Industries) in Tanzania is a critical driver to realise the country’s vision 2025. The vision entails a middle-income economy that will have been transformed from a low productivity agricultural economy to a semi-industrialised one led by modernised and highly productive agricultural activities which are effectively integrated and buttressed by supportive industrial and service activities in the rural and urban areas. Recent policy and legal reforms in the extractive sector as well as the broader development plans and strategies have sought to create stronger linkages between resource extraction and the broader economy as a strategy to achieve what several government documents describe as a resource-based industrialisation. The confidence in promoting a resource-based industrialisation strategy stems from the country’s rich natural resource endowments.

In the past 20 years, a Foreign Direct Investment (FDI) based extractive strategy has greatly contributed to Tanzania’s record economic growth which has averaged over 6%. However, despite impressive economic growth, several studies have shown that the extractive sector has failed to diversify Tanzania’s economy, let alone benefitting it adequately.

Therefore, the concerns for Jukwaa la Uziduaji 2019 based on the discussions on the underlying issues that; achieving the desired development goals and improved governance in extractive industries, strong partnership and collaboration with wide range of stakeholders in the sector is critically needed.

## RATIONALE FOR JUKWAA LA UZIDUAJI 2019

### THEMATIC AREA 1: POLITICAL DYNAMICS AND RESOURCE NATIONALISM

*“By virtue of article 27 of the Constitution of the United Republic of Tanzania “every person has the duty to protect the natural resources of United Republic of Tanzania (URT)” and by virtue of section 4(1) of the Permanent Sovereignty Act of 2017 providing that; “The people of United Republic of Tanzania shall have a Permanent Sovereignty over all natural wealth and resources”.*

Investment in the mining, oil and gas in Tanzania is seen as an opportunity for economic transformation and human development towards poverty alleviation whereas for the multinationals it is all about maximising profits. Public expectation for benefits to reach the larger population has never been greater. Persistent poverty, unemployment, inequality and the increasing voice and influence of civil society organizations (CSOs) add to the pressure on governments and investors to rationalize the benefit sharing of extractive resources wealth. This has created a sense of urgency for the government and investors to respond and use the resources to deliver immediate and tangible benefits. As of recent, the opportunity has been backed by government desire to review the legal framework, whereby new laws, regulations and guidelines have been and continue to be developed and amended. However the practice is faced with challenges of law incoherent, implementation gaps and inadequate institutional coordination and communication. However, others see this as migration towards “resource nationalism” and direct state control on the management of resources.

#### Concerns

State and citizen participation in natural resource management- The government is questioned for eroding value and diminishing competitiveness through the political economy while investors are faulted for not integrating projects into the economies of areas hosting extractive-FDIs, negotiating unfair deals, being merely opportunistic and evading tax. Conflicting laws and uncoordinated institutions within the sector. The state of extractive resources as a critical discussion for the Union between Tanzania Mainland and Tanzania Zanzibar.

#### Questions to ponder:

What is the influence of global context vs resources in Tanzania; global strategies, international systems? Natural Resource Laws for 2017: What are the opportunities, challenges and lessons for Tanzanians?

#### Thematic Objectives

- To foster and strengthen implementation effectiveness including prioritization and integration of intervention existing in the extractive sector
- National and Regional collaboration with all stakeholders are key to making Tanzania and the East African Extractive Industry successful

## THEMATIC AREA 2: LOCAL CONTENT AND INCLUSIVE GROWTH IN THE EXTRACTIVE SECTOR-TANZANIA:

Tanzania has drafted frameworks on Local content for its extractive sector (Mining, Oil and natural gas<sup>1</sup>) and these reforms are still continuing to take place. The aim of these reforms is to make sure as a country, the extractive sector makes sense of “resource nationalism agenda” whereby benefits accrued are expected to reflect beyond the direct contributions of its value-added, through productive linkages with other sectors. The current Local content policies and legislation in the country necessitate investors to increase job and business opportunities for nationals in the sector and can be defined by the share of local inputs (labor, capital, intermediate products) that are used in production and the share of local ownership of the production companies. This typically involves increasing the share of nationals working in the extractive sector and increasing the participation of local companies in the supply chains. The development of the local content policies have been monopolized by the Government refraining thorough consultative process. Effective stakeholders’ consultation maximizes the knowledge and transparency process for effective decision making process and makes it even easier to manage expectations. In the targeted areas for instance Gas Projects in the Southern part of Tanzania have been delayed (LNG) which have direct impact on community expectations about what can possibly be achieved through the Local Content Policies in the extractive sector . This would also contribute to enhancement of conflicts and suspicion among stakeholder.

### Concerns:

State and citizen participation in the extractive projects: the question of Centralization, consultation and effective engagement? Cross cutting issues around extractive projects; Gender and Women participation in the value chain; Corporate social responsibility (CSR); Training and employment of Tanzanians; Provisions of good and services by the Tanzanian Entrepreneurs; Value addition: state of Listing of shares, smelting and refinery, banking?

### Questions to Ponder:

How do stakeholders support locals to get the desired standards for the supply goods and services in the sector? How government is confidence and political will impact the ability to implement the Local Content Policies in an effective and fair way? How will lack of a capable, prepared environment prevent local companies from being able to compete with international companies? How should the Local Content Policy (s) implementation be monitored? What is local ownership? Why Consultations and stakeholders’ involvement very critical in the extractive sector? Citizen

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<sup>1</sup> The Petroleum Act, 2015(“Act”) and the Petroleum (Local Content) Regulations, 2017

preparedness and readiness? Should CSR be an operating cost or charity? Challenges on CSR practices in Tanzania? The state of Environmental Impact Assessment reports and practices in extractive projects?

**Thematic Objective:**

- To sensitize on local content issues in alignment of the national, regional, district and community levels for inclusive growth.
- To expand community participation, particularly women and vulnerable groups, in consultations, dialogue, negotiations, capacity building and advocacy to advance rights related to local content and the extractive industry value chain.
- To advocate for effective formulation of the national local content policy that cuts across all sectors in Tanzania.
- To assess the process towards the development of a new LCP and to promote it

**THEMATIC AREA 3: BUDGET AND REVENUE MANAGEMENT IN THE EXTRACTIVE SECTOR**

*“Sustainable economic development cannot come from merely extracting a resource. Authorities must invest revenues so that current and future generations enjoy the bounty”-NRGI.*

Tanzania is a provider of raw materials from extractive industries (mining, oil and natural gas) for the global market. These extractive resources are finite, and therefore important that revenues generated – that have been contributing to nation-wide economic growth and social development are managed prudently and invested wisely into sustainable and long-term economic activities to improve the quality of people’s lives. This has never been the case with mining revenues, a lesson that should be avoided at any cost with the emerging natural gas revenues. Too often, corruption and mismanagement of natural resources has led to continuing poverty and social conflicts

During the 2015/16 fiscal year, on average, the government collected tax revenues to the tune of TZS 1,176 billion from the extractive sector, contrary to TZS 434.6 reported by TEITI in 2015/16 fiscal year (2.7 times). The TRA data is also lower than the total contribution of government revenue from the extractive sector in 2016 of TZS 13,914 billion (3.12% of total government revenue and 11.8 times the one reported by TRA) as reported by IMF in 2016. The differences between IMF and TRA data is based on the fact that TRA focuses on tax-related revenues while IMF considers all economic rents from the extractive sector (tax and non-tax sources). Further, mineral rents (difference between value of production at world prices and total cost of production) as a percentage of GDP was 2.95% in 2016.

**NB: Government Tax Revenue Collection from the Extractive Sector (2015 – 2018)**

Year	2015	2016	2017	2018
Mining Revenue (TZS billion) <sup>(a)</sup>	1,070	1,281	1,127	867
Extractive Industry Revenue (TZS billion) <sup>(b)</sup>	1,259	1,507	1,326	1,020
Mineral Rents (% of GDP) <sup>(c)</sup>	2.69	2.95		

*(a) Source: Tanzania Revenue Authority Database (2019)*

## Concerns

1. Fiscal rule and fiscal regimes: Revenues from the petroleum sector Vs Mining Sector their projections, reporting and their policy choices:
2. Fiscal Transparency and Accountability: What are the challenges facing Tanzania in ensuring transparency and the impact to effective management of natural resource revenue?
3. Extractive Revenue Fund: For the purpose of ensuring Transparency and Accountability on the collection, expenditure and management of petroleum and natural gas revenues, section 251 (a) (b) of the Petroleum Act, 2015 provides for the Government shall cause an enactment of Parliament providing for establishment of a fund into which shall be deposited revenues derived from oil and gas. For years now, the state of the fund is unknown.

## Questions to ponder:

Why the need for the extractive related funds? What is the state and absorptive capacity? What are the implications? How revenues from the Mining Sector are largely managed? Is there a clearly legal defined legal framework for the purpose of managing Revenues from the Mining sector or for the Purpose of Managing the Oil and Revenue Fund? Non-compliance of the TEITA Act of 2015 regarding public disclosure of extractive contracts?

## Thematic Objective:

- To bring out the current policy issues and challenges with regards to the management of the revenues accrued from the extractive sector.
- To allow participants to share their experiences with revenue management and how it helps (or hinders) Tanzania and the region to advance on its development goals.