



BOOK SUMMARY

This book is a product of a research and capacity building programme titled *Tanzania as a Future Petro-State: Prospects and Challenges*, implemented in 2014 – 2020. The programme aimed to enhance the empirical understanding of the key prospects for and challenges facing Tanzania as an emerging petro-state, and to provide contextualized and evidence-based policy analysis for the oil and gas sector. The book consists of four main parts, each providing critical analysis of the sector's status quo, offering reflections on key practices and offering practical advice on improving national returns from the sector.

Part I of the book comprises of two chapters that provide the scope and context for the ensuing sector analysis. This introductory part explores the underlying macroeconomic environment for Petroleum resources, institutions and politics. Analysis of both the empirical and theoretical literature on Petroleum resources forces the authors to review the concept of a “resource-curse” and the conditions under which it is likely to prevail. The introduction then revolves to charting the evolution of the Petroleum sector in Tanzania. Here the book analyzes the contribution of Petroleum to Tanzania's economy, and reviews the evolution of the nascent value chain. The Part concludes by inviting reflections on the prospects and challenges for the sector in Tanzania.

Part II consists of Chapters 3 to 9 and addresses the legislative framework and fiscal management of Petroleum in Tanzania. These build on their predecessors' provocations by considering the legislative and fiscal frameworks for the petroleum sector, that are critical for the stability and sustainability of the sector and the economy more broadly. This part

of the book examines the Government's efforts to establish a legal and fiscal architecture to manage the country's petroleum resources. More specifically, the seven papers in this part focus on how and why the exploitation of petroleum resources may affect:

- Intra-governmental fiscal relations, with a particular focus on policy consistency, decision making processes and exchange of information between the involved ministries and public agencies;
- Public-public and public-private sector interactions, including lobbying, in shaping petroleum revenue legislation, regulatory frameworks and public investment decisions; and
- Citizens' willingness to pay, and the government's willingness to enforce tax payments over time.

Chapters 3 and 4 provide overviews of the legislative framework and fiscal system related to the petroleum sector in Tanzania, respectively, and how they have evolved over time, while Chapter 5 takes a more detailed look into the country's fiscal regime and its suitability. Chapter 6 then highlights the fundamental aspects of investment and revenue governance for negotiating Tanzania's natural gas future and the ongoing debate on how future petroleum revenues should be spent. Some politicians advocate, for instance, that current budgetary gaps should be filled by spending expected future revenues in advance. The handling of public expectations is a key issue for the expenditure side of the national budget in the context of a resource boom.

Chapters 7 and 8 discuss issues related to management of gas revenues in the context of uncertainty and the taxation of non-resource sectors in resource rich settings. Notably, the Tanzania Revenue Authority (TRA) is not only concerned with the fiscal regime for extractive industries, but also how public expectations for large, future petroleum revenues may influence and undermine citizens' willingness to pay tax over time, i.e., do the expected petroleum revenues challenge the ordinary (non-petro) tax system? Chapter 9 offers initial conclusions by identifying and discussing key aspects for deciding whether or not Tanzania should establish a petroleum fund.

Part III of the book addresses some of the sector's concluding questions posed in Part II by focusing on how Tanzania can ensure economic benefits from the petroleum sector.

Collectively, the analyses in Part III's five chapters (10-14) explore different aspects of Petroleum's local content regime in Tanzania. Chapter 10 asks the pertinent question of who is responsible for implementing, overseeing and enforcing local content regulations and provisions related to the gas and mineral sectors in the country. It reveals a

confusing array of regulatory agencies with overlapping mandates. Chapter 11 then summarizes results from a 2015 study of stakeholder perspectives on local content and the process implemented by the Tanzanian government to draft the country's first LCP and the subsequent enactment of the Petroleum Act 2015 that includes local content provisions. Chapters 12 and 13 examines local content within the context of rising resource nationalism in Tanzania and other African states, and identifies lessons learned from the country's experience in the mining sector that can valuably be applied to the emerging gas sector. Chapter 14 then looks at the importance of integrating the extractive sector with other economic sectors and the potential for linking the agriculture sector with the emerging petroleum sector through food value chains.

Part IV revisits the management of expectations and politics in the sector. Spanning five chapters (15-19), this Part examines the dictum that successful management of national petroleum wealth goes beyond a well-functioning public financial management system. Indeed, a booming petroleum sector poses governance challenges at all levels of government, in the accountability relations between the government and citizens, and for peaceful co-existence among different groups in society. In Tanzania, various interest groups from business and government have been positioning themselves to shape the tax legislation and regulatory frameworks applicable to the petroleum sector in Tanzania. Therefore, a question of great importance for future policy dialogue is how the policy process and institutional set-up for petroleum governance can be optimized for regulating interest groups and for managing public expectations. There has been much talk about raised public expectations on the future benefits of the gas sector, but little empirical knowledge of what those expectations are and whether they differ between socio-economic groups.

Specifically, Chapter 15 investigates the role of lobbyists in shaping Tanzania's petroleum policies, and Chapters 16 and 17 examine the role of civil society in petroleum governance in Tanzania. The final two papers summarize two survey experiments on the perceptions and expectations of citizens related to the country's emerging natural gas sector. Chapter 18 tests whether access to information changes individual expectations with respect to corruption and trust in government, and Chapter 19 investigates a commonly held assumption about the relationship between violent conflict and people's expectations about revenues and benefits from the sector. The results indicate that ordinary citizens and politicians in Tanzania have limited knowledge about the petroleum sector, and public expectations are shaped primarily by the media. Hence, people's perceptions of governance may matter more than actual government performance.

The authors conclusions are collectively synthesized and packaged for practical policy advice in **Part V** of the book that concludes this volume. **This book reveals two key** policy findings. **First**, the importance of strong institutions for governing the petroleum sector. Institutions matter in determining why some countries experience the resource curse while others do not. Tanzania is in the process of strengthening existing institutions for petroleum governance and developing new ones, including regulatory agencies, legislation, treaties and contracts (see Chapters 3, 5, 6, 9 and 10). A critical question is how the Government can design institutions that safeguard the country against the (pre-) resource curse, and ensure that natural resources are translated into prosperity and inclusive development by prudently managing revenues, investing in economic and social infrastructure that are fundamental to economic growth, and diversifying the economy.

Two, best practice may not be the best option: The right laws, policies and institutions depend on the prevailing country context. While much has been written about the 'right' policies and legislation, implementation strategies have received less attention. Few studies examine how the implementation mechanisms and the institutions involved react to the interplay between market signals, public expectations and domestic policies, and which role each of these factors plays in decision making (see Chapters 3, 5, 6, 15, 16 and 17). Much emphasis has been placed on what should be done to prevent the resource curse from occurring, partly based on so-called 'best practices' from other countries. This book contends that 'best-practice' institutions are, almost by definition, non-contextual. Instead, appropriate institutions for developing countries are often 'second-best' institutions, i.e., those that take into account context-specific market and government constraints that cannot be easily removed. Such institutions will often diverge greatly from best practice. Therefore, the analysis investigates what can be done with respect to the choice of regulatory regime (Chapters 2 and 10), legislation (Chapter 3), tax and fiscal arrangements (Chapters 4 to 9), and local content (Chapters 11 to 14), given the political, institutional and economic constraints prevailing in Tanzania.

Based on the findings above, this book makes the following policy recommendations to enhance the prospects and address challenges in the Petroleum sector in Tanzania:

- Improve the overall business environment in Tanzania
- Consider adjustments to the legal and fiscal frameworks to accelerate development of the gas sector without jeopardizing long-term gains for the country
- Establish open, inclusive and transparent consultation processes among all stakeholders in the petroleum sector

- Promote knowledge transfer between IOCs and domestic firms
- Prioritize development of gas-intensive industries
- Establish clear lines of regulatory oversight for local content in the petroleum and mineral sectors
- Simplify the administration of the LCP
- Manage public expectations on expected benefits from the gas sector
- Engage and support CSOs to broaden citizen participation and information sharing in the petroleum sector
- Undertake a comparative analysis of Tanzania's fiscal and legal framework with other emerging gas-rich countries
- Invest petroleum revenues in infrastructure, health and education rather than a petroleum fund
- Increase broad-based tax compliance and expand the non-resource revenue base