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WILL TANZANIA'S NATURAL GAS ENDOWMENT GENERATE SUSTAINABLE DEVELOPMENT?

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ABSTRACT

Tanzania first discovered natural gas in commercially viable quantities in 2010. In March 2016, another major gas discovery of 2.7 trillion cubic feet (TCF), estimated at a value of some $8 billion was made in the Ruvu Basin Coast Region. This brings Tanzania's total estimated gas reserves to roughly 60 TCF, and could generate up to $6 billion in annual revenue. While the new discoveries of natural gas and the associated foreign direct investment in infrastructure could trigger further growth in an already fast-growing economy, caution is also warranted. Windfall resource rents often generate incentives for elites to curtail political freedoms and abrogate their governance responsibilities. Rules governing natural gas extraction and processing should be rigorously designed well before large-scale production begins. This paper argues that Tanzania has accomplished this. The formal governance institutions appear to be in place. The challenge will be to develop the necessary technical capacity within the government and civil society, and the political will in the ruling coalition, to ensure that Tanzania's gas endowment is in fact harnessed for inclusive growth.

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ABBREVIATIONS AND ACRONYMS

BCF	billion cubic feet
CHADEMA	Chama Cha Demokrasia Na Maendeleo
CCM	Chama Cha Mapinduzi
CSO	civil society organisation
EIA	Energy Information Association
EITI	Extractive Industries Transparency Initiative
FEED	front end engineering design
HH	Henry Hub
IMF	International Monetary Fund
IPTL	Independent Power Tanzania Ltd
LNG	liquefied natural gas
MMBTU	million British thermal units
NGO	non-governmental organisation
PAC	Public Accounts Committee
PSA	production sharing agreement
PV	photovoltaic
TANESCO	Tanzania Electricity Supply Company Limited
TCF	trillion cubic feet
TEITI	Tanzania Extractive Industries Transparency and Accountability Act
TPDC	Tanzania Petroleum Development Corporation
WTI	West Texas Intermediate

INTRODUCTION

Tanzania first discovered natural gas in commercially viable quantities in 2010, roughly 100 kilometres off the coast. In March 2016, another major gas discovery of 2.7 trillion cubic feet (TCF) was made in the Ruvu Basin Coast Region, estimated at a value of some $8 billion.[1] This brings Tanzania's total estimated gas reserves to roughly 60 TCF, which could generate up to $6 billion in annual revenue. Production of natural gas for domestic consumption began in 2004, but the deposits discovered up to that point were small and did not attract much foreign interest or investment.

While the new discoveries of natural gas and the associated foreign direct investment in infrastructure could trigger further growth in an already fast-growing economy, caution is warranted. Windfall resource rents often generate incentives for elites to curtail political freedoms and abrogate their governance responsibilities.[2] One of the major determining factors of whether natural gas rents will help or hinder Tanzania's development will be the strength of its political and economic institutions.[3] In July 2015, three new oil and natural gas bills were passed by the legislature. They were signed into law the following month. A recent lower oil price has probably been a disguised blessing for the country – exploration investment has slowed down, allowing more time to strengthen institutions and develop appropriate legislation, and less reputable players have had to withdraw from the gas fields.[4] Rules governing natural gas extraction and processing should be rigorously designed well before large-scale production begins. Of course, mere rules on paper are insufficient for ensuring appropriate governance of the sector, but they are necessary. It therefore appears, on the surface, that Tanzania is relatively well placed to harness its natural gas bonanza to effect positive development outcomes, although recent political economy developments suggest that progress could be uneven.

While the new discoveries of natural gas and the associated foreign direct investment in infrastructure could trigger further growth in an already fast-growing economy, caution is warranted

This paper examines the development prospects potentially afforded to Tanzania by its significant natural gas endowment. The first section details the gas discoveries in terms of magnitude and potential value, and locates this within Tanzania's existing economic picture. The second section examines the strength of Tanzania's governance institutions and the impact that recent political economy developments may have on the sector.

1 Burgess J, '$8 Billion natural gas find re-affirms Tanzania's status as gas giant', *Oilprice.com*, 28 March 2016, http://oilprice.com/Energy/Energy-General/8-Billion-Natural-Gas-Find-Re-Affirms-Tanzanias-Status-As-Gas-Giant.html, accessed 24 April 2017.

2 See Ross ML, 'What have we learned about the resource curse?', *Annual Review of Political Science*, 18, 2015, pp. 239–259; Harvey R, 'Natural resource rents and elite bargains in Africa: Exploring avenues for future research', *South African Journal of International Affairs*, 21, 2, 2014, pp. 1–21; Harvey R, 'Future Oil revenues and Political Dynamics in West and East Africa: A Slippery Slope?', Occasional Paper, 188. Johannesburg: SAIIA (South African Institute of International Affairs), 2014; Robinson JA, Torvik R & T Verdier, 'Political foundations of the resource curse', *Journal of Development Economics*, 79, 2006, pp. 447–468.

3 Mehlum H, Moene K & R Torvik, 'Institutions and the resource curse', *The Economic Journal*, 116, 29, 2006, pp. 1–20.

4 Personal interview with a marine ecologist and consultant, Dar es Salaam, 12 April 2016, conducted under the Chatham House rule.

It therefore appears, on the surface, that Tanzania is relatively well placed to harness its natural gas bonanza to effect positive development outcomes

The third section draws on oil-curse literature[5] and game theory models to analyse Tanzania's development prospects.[6] It reveals what impact oil rents might have on the existing political equilibrium. The fourth section briefly examines the institutions that are responsible for governing the natural gas sector in Tanzania. The closing section suggests practical policy steps that can be taken to strengthen these institutions. To attract reputable, long-term investment, clear and stable rules ought to be credibly provided, along with requirements for environmental protection.

MAGNITUDE AND POTENTIAL VALUE OF TANZANIA'S NATURAL GAS

Despite extensive estimated onshore and offshore deposits of 60 TCF, proven gas reserves are substantially smaller. Nonetheless, discoveries in the last three years have been prolific. The first discovery was made in 1974 during exploratory drilling off Songo Songo Island in the Lindi Region. Subsequent discoveries followed shortly thereafter at Mnazi Bay in the Mtwara region. Major exploration only began in the early 2000s.[7]

In 2010, upon discovery of commercially viable quantities, production began. In 2014, Tanzania produced 19 billion cubic feet (BCF) of gas, roughly 30% lower than in 2010. All gas is currently consumed locally. A 532km natural gas pipeline was completed in 2015 and runs from the Mnazi Bay concession in the Rovuma Basin in southeast Tanzania to Dar es Salaam, the major port city. The pipeline has a capacity of 0.8 BCF per day, and was financed by a $1.2 billion loan from the Chinese.[8] The country has yet to export its gas, and has plans to build a liquefied natural gas (LNG) plant in Lindi. The US Energy Information Association (EIA) proffers that Tanzania has the potential to become a net exporter of LNG. In April 2014, the international companies involved in offshore exploration, 'agreed to jointly build an LNG plant in partnership with the Tanzania Petroleum Development Corporation (TPDC), Tanzania's national oil company.'[9] The TPDC finalised a deal in 2016 to acquire the title deed for the land on which the plant is to be built in the southern coastal city of Lindi. The EIA's most recent report states that the project is in the pre-front end engineering design (FEED) stage, and should enter the

5 Michael Ross, a leading scholar on the relationship between oil and development, argues that the 'resource curse' is more accurately described as a 'mineral curse', and within that category it is overwhelmingly an oil curse. See Ross ML, *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations*. New Jersey: Princeton University Press, 2012.

6 This section draws, in part, from Harvey R, *op. cit*. Also consult this paper for a relatively recent review of the literature and debates on the particular effects of oil wealth on growth and governance.

7 Lokina R & A Leiman, 'Managing Natural Resources for Sustainable Growth and Human Development in Tanzania - the Case of Extractive Industry', Economic and Social Research Foundation Discussion Paper Series, 57. Dar es Salaam: Economic and Social Research Foundation, 2014.

8 Ng'wanakilala F, 'Tanzania plans gas pipeline to Uganda', *Reuters Africa*, 4 May 2016, http://af.reuters.com/article/ugandaNews/idAFL5N1816VF?sp=true, accessed 26 April 2017.

9 Energy Information Association, 'Analysis: Tanzania', last updated in April 2016, https://www.eia.gov/beta/international/analysis.cfm?iso=TZA, accessed 26 April 2017.

full FEED stage in 2018. The export terminal is valued at an estimated $30 billion. Statoil, one of the international partners, warned in November 2016 that the project could be pushed back to 2026. The country manager for Tanzania, Oystein Michelsen, said that a final investment decision would probably not be taken within the next five years due to regulatory instability and uncertainty of local ownership requirements.[10] A briefing by *The Economist Intelligence Unit* in late 2015 stated that significant production before the end of the decade was unlikely, highlighting competitiveness concerns in an oversupplied market and the difficulties of raising capital for complex LNG deals, poor infrastructure and regulatory inefficiencies.[11]

The pipeline and LNG processing plants could generate long-term export revenues of an estimated $5 billion by 2025.[12] It would also have the latent benefits of reduced demand for energy imports, local tax revenue generation, and potential job creation. In a country with one of the lowest rates of access to electricity in the world, LNG production could produce broad-based gains. Electricity access reduces indoor air pollution by providing safe light and heat, helps school pupils to complete homework, and allows refrigeration of fresh food. Tanzania only has 1 500MW of installed electricity generation capacity, of which more than a third comes from hydroelectric sources. Recent drought has rendered these facilities unable to operate at full capacity.[13] The other major challenge is that the state-run power utility, the Tanzania Electricity Supply Company Limited (TANESCO), is a cash-strapped monopoly. While generation from independent power producers could satisfy Tanzania's local energy demand, TANESCO often fails to pay its bills on time. This in turn creates cash flow problems for private electricity providers such as SonGas, which supplies about 20% of Tanzania's electricity and recently threatened to stop production unless it was paid.[14]

In a country with one of the lowest rates of access to electricity in the world, LNG production could produce broad-based gains

Aside from regulatory considerations, the primary determining factors of whether or not an LNG plant will be built are the market fundamentals of price, the size of likely future demand, and the marginal costs of extraction. In this respect, the relationship between LNG prices and oil prices is important to understand. Historically, the relationship between the West Texas Intermediate (WTI) crude oil prices and the Henry Hub (HH) natural gas prices was about 10:1 – one barrel of WTI crude oil priced at 10 times one million British thermal units (MMBTU) of natural gas. This has since declined to a ratio

10 Found on IPPmedia.com, http://www.ippmedia.com/en/news/tanzanias-lng-project-stalls-uncertainty-rises-report, accessed 26 April 2017. See also: Ledesma D, *East Africa Gas – Potential for Export*. Oxford: University of Oxford, 2013.

11 *The Economist Intelligence Unit*, 'East African Gas: a reality check', 16 November 2015, http://www.eiu.com/industry/article/1133686697/east-african-gas-a-reality-check/2015 -11-18, accessed 25 May 2017.

12 Hayman A, 'The East African energy frontier, a decade on', Policy Insights, 33. Johannesburg: SAIIA, 2016.

13 *The Economist*, 'Electricity in Africa: Power hungry; Electrification plans are stalling because distributors won't pay', 7 January 2016, http://www.economist.com/news/middle-east-and-africa/21685504-electrification-plans-are-stalling-because-distributors-wont-pay-power-hungry, accessed 26 April 2017.

14 *Ibid*.

of 6:1. Recently, questions have arisen as to whether these prices are becoming uncoupled as technologies advance and incentives change in response to climate change dynamics. Gas is cleaner to extract and transport and is less environmentally damaging to burn in fuel form. One reputable paper[15] concludes that despite convergence from a 10:1 to a 6:1 ratio, WTI and HH prices (as proxies for oil and LNG prices) remain linked in their long-term movements. The narrowing is a result of the widespread adoption of combined cycle gas turbines, which has increased the efficiency of natural gas-generated electricity as a substitute for oil-based fuel. The authors argue that 'a $70 per barrel WTI average price (expressed in real 2000 prices) is likely to promote a long run equilibrium natural gas price at the Henry Hub of around $9.40 per MMBtu.'[16] However, the relationship is indirect, working through competition between natural gas and residual fuel oil. Natural gas and residual fuel oil prices tend to respond to changes in the international oil market, but do not in turn influence those movements. The authors argue that short-run changes in prices (creating the appearance of divergence or decoupling) are influenced by shock events such as relative supply levels, hurricanes and other seasonal factors. Future changes in electricity-generating technology will be among the most important factors influencing the relationship between residual fuel oil and natural gas prices. Improvements in the heat rate of natural gas-fired electricity generation is one such example.[17]

Advances in renewable energy technologies also need to be built into the model of the relationship between WTI and HH prices. The demand for gas may increase as gas supplementation to large-scale wind and solar photovoltaic (PV) power becomes a reality, and the demand for oil is replaced, to some degree, by demand for these new technologies. It seems reasonable to project that international oil prices are likely to remain at an equilibrium of around $50 per barrel.[18] On the supply side, inventories are plentiful, especially with Iran coming back into global production as a low-cost producer. Unless there are significant supply disruptions from geopolitical forces, prices are unlikely to recover to their previous highs.[19] On the demand side, despite some advances, the world is a long way from ridding itself of its oil addiction. Despite the rise of renewable energy, oil remains a critical component of almost every product in circulation from clothing to plastics (either in the product itself or in the manufacturing process). This notwithstanding it may be that the oil price will decouple from natural gas prices in the

15 Hartley P, Medlock K & J Rosthal, 'The relationship between crude oil and natural gas prices', Houston: James A. Baker III Institute for Public Policy, 2007, http://www.bakerinstitute.org/media/files/Research/c4d76454/ng_relationship-nov07.pdf, accessed 26 April 2017.

16 *Ibid.*, pp. 8–9.

17 For in-depth material on this relationship, see Hartley P, Medlock K and J Rosthal, *op. cit*.

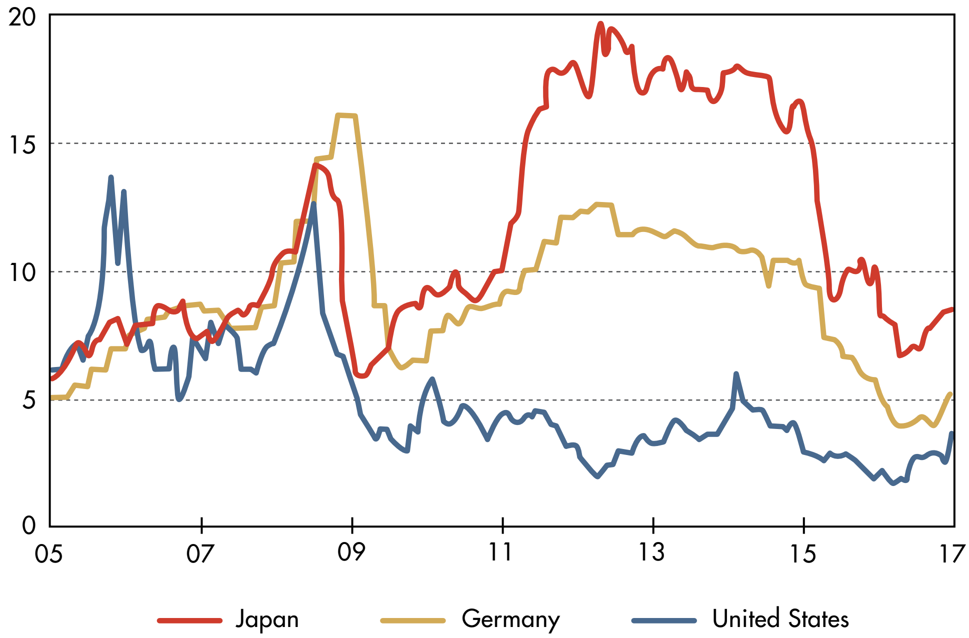
18 See Kaletsky A, 'The limits of oil's rebound', *Project Syndicate*, 30 May 2016, https://www.project-syndicate.org/commentary/price-ceiling-for-oil-by-anatole-kaletsky-2016-05, accessed 9 May 2017.

19 Political tensions in the Korean Peninsula and war in Syria are two important geopolitical considerations. Moreover, the rise of populism worldwide constitutes a threat to global stability. See Kagan R, 'Backing into World War III', *Foreign Policy*, 6 February 2017, http://foreignpolicy.com/2017/02/06/backing-into-world-war-iii-russia-china-trump-obama/, accessed 9 May 2017.

future, as oil becomes an increasingly less important source of electricity generation and cheaper sources of LNG become available.

Moreover, the recent proliferation of gas supply in the US has seen a divergence of LNG prices across different markets (unlike oil, which is more standardised). This will also influence the investment equations for Tanzania. As the International Monetary Fund (IMF) points out, 'the current regional price segmentation in international gas prices in recent years adds uncertainty to the financial outlook for a gas project.'[20] Technological advances in the US could lead to downward price adjustments in Asia, a key export market for Tanzania. This may make it easier to secure long-term gas uptake contracts with customers, but it may make the margins too thin to justify the billions of dollars required to build LNG processing plants and pipelines. For evidence of considerable recent natural gas price divergences and fluctuations, see Figure 1.

FIGURE 1 NATURAL GAS PRICES MONTHLY ($/MMBTU), 2005–17



Source: IMF (International Monetary Fund), Commodities Unit, Commodity Market Monthly, 15 March 2017, p. 9

20 Baunsgaard T, 'United Republic of Tanzania: Selected issues', *International Monetary Fund*, 11 April 2014, https://www.imf.org/external/pubs/ft/scr/2014/cr14121.pdf, accessed 26 April 2017.

Gas may prove useful to Tanzania, but it should not be viewed as a panacea for the country's development

Gas may prove useful to Tanzania, but it should not be viewed as a panacea for the country's development. Tanzania requires structural economic transformation. If this is to be achieved, it will require a concerted political effort to use gas as an instrument of development rather than as an expedient source of rent to maintain political power. There is also considerable risk in sinking substantial capital into infrastructure projects such as LNG plants. Governments tend to favour large projects that are politically sellable, and generate rents for the elite. This may crowd out opportunities for smaller projects that are more flexible and geographically devolved. For instance, where there are budgetary trade-offs that have to be made, solar PV plants may be a wiser investment in terms of an overall development strategy, as costs are declining rapidly and these would increase Tanzanians' access to electricity, which is another major obstacle to sustained economic growth at present. Of course, this does not preclude the option of using gas, where viable, as a supplementary measure in a more diversified domestic energy basket.

The country has experienced strong economic growth over the last few years, but the composition of its export basket is not sufficiently diversified to generate labour-absorptive growth. It is overly dependent on raw mineral exports for foreign exchange revenues, and the volatility of commodity prices presents a risk to the stability of the fiscus. President John Magufuli recently imposed a mineral export ban on gold and copper, ostensibly in the name of incentivising domestic value addition.[21] Such a move, without a clear economic plan and buy-in from business elites, is likely to produce volatility that the ruling party should avoid.

More generally, the quality of education is poor, which may exacerbate youth unemployment, especially in the context of a fast-growing population and limited resources available to fund a social welfare programme.

If it is to optimise its natural resource endowment for long-run sustainable and inclusive development, Tanzania's institutions will have to be insulated against political interference

If it is to optimise its natural resource endowment for long-run sustainable and inclusive development, Tanzania's institutions will have to be insulated against political interference. As the model presented later in the paper indicates, windfall resource rents tend to create incentives for elites to reduce taxation (to appease the citizenry, but severing an important accountability link in the process), and siphon funds away from the fiscus for self-enrichment. This rent acquisition can also strengthen the position of the ruling coalition by extending the size of the patron-client network and thus reducing the efficacy of political opposition. The next section briefly examines the quality of Tanzania's institutions within the political economy landscape.

GOVERNANCE INSTITUTIONS AND THE POLITICAL ECONOMY LANDSCAPE

President Magufuli came to power in the 2015 national elections on an anti-corruption ticket. He has given every appearance of credibly delivering on that promised commitment. However, the concern is that giving the appearance of intolerance towards *petty* corruption

21 Sanderson H, Hume N & J Aglionby, 'Acacia mining hit as Tanzania bans gold and copper ore exports', *Financial Times*, 3 March 2017, https://www.ft.com/content/5edcae58-002a-11e7-96f8-3700c5664d30, accessed 9 May 2017 (access limited to subscribers).

is distinct from rooting out *grand* corruption. The corollary to this is that corruption has been deeply embedded in Tanzanian politics for a long time; the danger is that it may have become so normalised that attempts to uproot it may destabilise the ruling coalition.[22] Nonetheless, incremental reforms that move Tanzania towards ultimately eradicating corruption are crucial to the country's long-term welfare.

Hazel Gray, a leading Tanzania scholar, shows that incremental progress has been made in improving public financial management since the late 1990s.[23] This has not translated into reducing the seeming intractability of 'grand corruption', one example of which was a 2014 scandal that 'involved the alleged illegal payment of $122 million by senior state officials to businessmen under the guise of energy contracts'.[24] Drawing on Mushtaq Khan's theory of political settlements,[25] Gray contends that, in Tanzania, formal or de jure institutions do not neatly align with the distribution of political power between contending social groups. In other words, the de facto rules of the game may be different to those of formal institutions such as constitutions or laws governing natural resource extraction. 'A political settlement is a combination of power and institutions that is mutually compatible and sustainable in terms of economic and political viability.'[26]

If natural resources are to contribute to development, rather than undermining it, then it is essential that they are well governed. This does not mean, however, that a country should merely have good laws and policies on paper. It means that the institutions responsible for implementing those laws and policies must be both capable of governing and credibly committed to honouring the relevant contracts. The laws will mean little if the logic of the elite bargain is not animated by the rule of law. Too many development interventions simply call for better governance mechanisms to be designed without first understanding what impact such laws and policies might have on the political equilibrium.[27] Formal rules can simply create a smokescreen for rent extraction. Policy recommendations are therefore unlikely to gain traction unless the nature of the political settlement in Tanzania is first understood. Similarly, the pattern of international donors withholding aid and then granting it again once sufficient penance has been demonstrated is unlikely to deal with the underlying problem.[28]

22 See Levy B, *Working with the Grain: Integrating Governance and Growth in Development Strategies*. Oxford: Oxford University Press, 2014. Eradicating the corruption that glues the ruling coalition together may produce chaos rather than stability, in part, because it erodes any capacity that may have developed amid the corruption.

23 Gray H, 'The political economy of grand corruption in Tanzania', *African Affairs*, 114, 456, 2015, pp. 382–403.

24 *Ibid.*, p. 383.

25 Khan M, 'Political settlements and the governance of growth-enhancing institutions', *Core*, 2010, https://core.ac.uk/download/pdf/2792198.pdf, accessed 9 May 2017.

26 *Ibid.*, p. 4.

27 Acemoglu D & JA Robinson, 'Economics versus politics: Pitfalls of policy advice', *Journal of Economic Perspectives*, 27, 2, 2013, pp. 173–192.

28 Gray H, *op. cit*. p. 387.

The elite within Tanzania's ruling party, the Chama Cha Mapinduzi (CCM), is not uniform, but rather is composed of internally competing factions with roughly equal levels of influence. This distribution of power within the ruling coalition renders attempts to stop grand corruption difficult for the leader. The implication is that Magufuli is only able to end visible corruption, and fire only low-level officials.[29] While this may make good headlines, it arguably does little to change the dynamics of the political settlement in which grand corruption is embedded. Impending natural gas rents therefore seem likely to entrench grand corruption, and increase competition for access to rents among competing factions. This may have a destabilising effect on the economy unless Magufuli can contain the disruptive effects. Importantly, acting on the findings of a recent report into undeclared mineral exports, Magufuli fired the Energy and Minerals Permanent Secretary, Professor Justin Ntalikwa, for lying to Parliament. He also advised the Minister of Energy and Minerals, Professor Sospeter Muhongo, to resign.[30] These are positive indications that he is credibly committed to rooting out grand corruption, and suggest that he has more political capital within the CCM than commentators often assume. However, it is interesting that Magufuli chose to re-hire Muhongo in 2015, even though he had been implicated in a corruption scandal in 2014.

On a positive note, improved media freedom and an increasingly open Parliament bode well for the governance of future gas rents. In Parliament, the emerging opposition party Chama Cha Demokrasia Na Maendeleo (CHADEMA) has been vocal in its criticism of the ruling party. Similarly, the CCM – within its own ranks – has turned up the volume of critique. While this may have done little to upend grand corruption, the four major cases[31] that have come to light in the last 25 years would arguably not even be known about were it not for these factors. The oversight mechanisms afforded by a vocal press and critical, independent opposition, bode well for gas governance. They are necessary, if insufficient, conditions for preventing – or at least exposing – corruption.

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29 See Aglionby J, 'Tanzanian president's tough tactics alienate political opponents', *Financial Times*, 13 July 2016, https://www.ft.com/content/08467070-41ca-11e6-9b66-0712b3873ae1, accessed 25 May 2017 (access limited to subscribers).

30 Ng'wanakilala F, 'Tanzanian president fires mining minister and chief of state-run agency', *Reuters*, 24 May 2017, http://www.reuters.com/article/us-tanzania-mining-idUSKBN18K19F, accessed 26 May 2017.

31 The two cases that are not examined in this paper are as follows: In 1999, a scandal erupted over a deal the government had struck with the international firm British Aerospace Engineering for the purchase of a civil aviation radar system. The other, in 2007, involved illegal payments from the External Payments Arrears account under the Bank of Tanzania. Local importers could pay into the account in Tanzanian shillings and foreign companies could then be paid by the Bank of Tanzania in foreign currency. Special measures were then introduced that allowed foreign creditors to assign payments to local companies. After rumours of corruption started to circulate, the government asked Ernst and Young to investigate. The audit revealed $131 million in improper payments to 22 local firms. A number of the firms that received money belonged to prominent business people with strong links to the CCM and to senior members of the CCM. See Gray H, *op. cit.*, pp. 391–392 for more details.

In the energy and natural resources domain, two cases serve as instructive lessons on how to strengthen governance institutions to avoid repetition when commercial gas production enters the political economy equation.

In the first of these cases, the Richmond scandal involved the relatively ineffective state-owned TANESCO. In 2005 TANESCO advertised a tender for emergency power supply. In February 2006, all proposals were rejected by TANESCO because none of them could demonstrate sufficient technical competence or financial surety to warrant consideration. One of the applicants was Richmond Development Company, a firm that had previously failed to win an oil pipeline construction project. The Minister of Energy and Minerals at the time, Dr Ibrahim Msabaha, along with his successor, Nazir Karamagi, and the Prime Minister, Edward Lowassa, however, provided political support to Richmond.[32] After TANESCO's rejection of the bids, Msabaha simply moved the bid adjudication for tender proposals to the office of the Ministry of Energy and Minerals. Lowassa 'instructed that officials … should disqualify other bidders and award the tender to Richmond.'[33] Later that year, despite delivery problems pertaining to the contract, Lowassa ignored TANESCO's advice and intervened to ensure that Richmond's contract was extended. The fact that this evidence appeared in a 2007 parliamentary report is good news, though Tanzania's electricity crisis remains unresolved partly because of these dynamics. To make matters worse, the Prevention of Corruption Bureau found no evidence of corruption in this case. In response, a Parliamentary Commission was established to investigate the deals, and did indeed find evidence of corruption. Unusually for a weakly institutionalised democracy,[34] Lowassa resigned as a result, along with Msabaha and Karamagi. Unfortunately, no one was held accountable beyond these resignations, and the lone official from Richmond who had been charged was acquitted by a local court in 2011.

The second case dates to 1995 and involves a contract between Independent Power Tanzania Ltd (IPTL) and the government. Amid accusations of tender process corruption, and concerns that the agreement would lock Tanzania into an unaffordable deal against the long-term economic interests of the country, the Prevention of Corruption Bureau came close to pressing charges, but these never materialised.[35] In 2000, TANESCO requested the International Centre for Settlement of Investment Disputes to consider charging IPTL with corruption. Charges were laid but were eventually withdrawn as the government failed to provide sufficient substantiating evidence in support of the initial submission of sworn statements from key officials in the mines and energy ministry.[36] IPTL was again in

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32 Gratwick K, Ghanadan R & A Eberhard, 'Generating power and controversy: Understanding Tanzania's independent power projects', *Journal of Energy in Southern Africa*, 17, 4, 2006, pp. 39–56.

33 Gray H, *op. cit*., p. 390.

34 Kelsall T, 'Governance, democracy and recent political struggles in Mainland Tanzania', *Commonwealth & Comparative Politics*, 41, 2, 2003, pp. 55–82.

35 Gray H, *op. cit*., p. 391.

36 See ICSID (International Centre for Settlement of Investment Disputes), 'Tanzania Electric Supply Company Limited and Independent Power Tanzania Limited', Case No. ARB/98/8, https://www.italaw.com/sites/default/files/case-documents/italaw6313_0.pdf, accessed 10 May 2017.

the spotlight in 2014. The Public Accounts Committee (PAC) was requested to investigate fraudulent payments from the Tegeta escrow account,[37] established by TANESCO, to IPTL. Reminiscent of the first case, one Member of Parliament and the Attorney General resigned. In January 2015, the Minister of Energy and Minerals, Sospeter Muhongo, also resigned in the wake of allegations of his involvement. In a surprise move, Muhongo was reappointed to the position by Magufuli in December 2015. The prime minister at the time, Mizengo Pinda, resisted pressure from Parliament to resign. A report by the chair of the PAC at the time noted the following:[38]

> For twenty years, senior politicians and government officials, foreign companies and commission agents have manipulated Tanzanian energy policy and have profited hugely from the public-private-partnerships (PPPs) they set up. In this regard, two PPPs stand out: Independent Power Tanzania Ltd (IPTL) and Richmond/Dowans. But whereas the Richmond scandal forced the resignation of Prime Minister Edward Lowassa (in February 2008), nobody has been taken to task in the same way over the much more costly IPTL, which has been generating ridiculously expensive power for over a decade. This briefing paper … is a cautionary tale of how state-private relations can be manipulated to the advantage of the few at the expense of the many, with serious micro- and macro-economic consequences.

These cases are indicative of what North, Wallis and Weingast refer to as the 'double balance' at the heart of elite bargains in weakly institutionalised countries.[39] Political institutions are manipulated by political and business elites to use economic institutions to generate rents for regime insiders. Though there is evidence of Parliament and the media – two important institutions – trying to hold the ruling coalition to account, they appear to have been relatively ineffective thus far. While Magufuli has displayed intolerance for visible corruption, many scholars remain sceptical that his approach will deal with the underlying institutional problems that produce grand corruption. For instance, Nic Cheeseman writes:[40]

> Stopping corruption by sacking officials in an ad hoc manner and making decisions on the spur of the moment may look dynamic and effective, but in reality it exacerbates the problem. At root, corruption occurs because institutional checks and balances are not sufficient to prevent individuals from abusing their positions. Dealing with this by

37 See Mtulya A, 'Focus now on Magufuli after ruling on Tanesco', *The Citizen*, 21 September 2016, http://www.thecitizen.co.tz/News/Focus-now-on-Magufuli-after-rulling-on-Tanesco/1840340-3389280-3jpvoe/index.html, accessed 25 May 2017.

38 Kabwe Z, 'How Pan Africa Power Ltd acquired Independent Power Tanzania Ltd for almost nothing and looted US$124m from the Bank of Tanzania', Briefing Paper, 29 July 2014, https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=2&ved=0ahUKEwipt-Geo-XTAhVkKMAKHTFeAHkQFggpMAE&url=http%3A%2F%2Fwww.jamiiforums.com%2Fattachments%2Fiptl-brief-final-edit-pdf.209985%2F&usg=AFQjCNFy-BnXC-LCIlRxAuRXBiPcgMiAYw&sig2=XWr_PjTK409d_DN-yHeC6w, accessed 10 May 2017.

39 North DC, Wallis JJ & BR Weingast, *Violence and Social Orders: A Conceptual Framework for Interpreting Recorded Human History*. New York: Cambridge University Press, 2009.

40 Cheeseman N, 'Deconstructing the Magufuli miracle in Tanzania', *Democracy in Africa*, 16 October 2016, http://democracyinafrica.org/deconstructing-the-magufuli-miracle-in-tanzania/, accessed 10 May 2017.

further undermining official processes ignores the heart of the problem and actually leaves institutions more, not less, vulnerable to manipulation.

PETROLEUM, POLITICS AND PERVERSE INCENTIVES IN WEAK DEMOCRACIES

Consider the following generic game between citizens and their governments: There are two citizen groups and one specialist in violence (usually the government or some ruling coalition). The government does not possess a monopoly over violence in the Weberian sense, and citizen groups have access to arms, should they choose to revolt.[41] The equilibria of the game suggest conditions under which order will prevail, which is the desired effect. Each citizen group possesses a given amount of resources that can, within the parameter of time, be allocated between work, preparing for military action, or leisure. Time resources allocated to work are productive, the opposite being true for military preparation. Citizens derive utility from income and leisure. They can either raid each other or work. The ruling coalition can increase its wealth through predation or tax collection.[42] These dynamics represent a military balance between the government and its citizens. The government will only choose to raid the citizens if its expected revenue from doing so is larger than the cost (both financially and to its legitimacy). Conditions under which equilibrium is achieved lay the foundation for political stability and the maintenance of the elite bargain. The government, ideally, provides protection and refrains from predation. Citizens refrain from military endeavours and choose a combination of work and leisure instead. Government must tax the population enough to avoid the incentive to extract rents elsewhere, but also not excessively. If they tax too highly, work becomes disincentivised, which may incentivise rebellion.

The dynamics of the game change when an exogenous windfall enters the equation, as resource wealth plays a significant role in shaping the behaviour of elites. 'In the face of dwindling public resources or insecure political futures, given the availability of wealth from appropriable resources, they could greet with equanimity a future of political disorder.'[43] The government now has a diminished incentive to tax citizens, but citizen groups may have an increased incentive to take up arms against the government, or to raid other citizens if those citizens appear to be favoured by the regime. It is not an unusual strategy for governments to extend patronage to one citizen group to buffer potential revolt from others. Windfall gas rents may cause a deviation from the strategies that, until now, have ensured that equilibrium conditions are met.

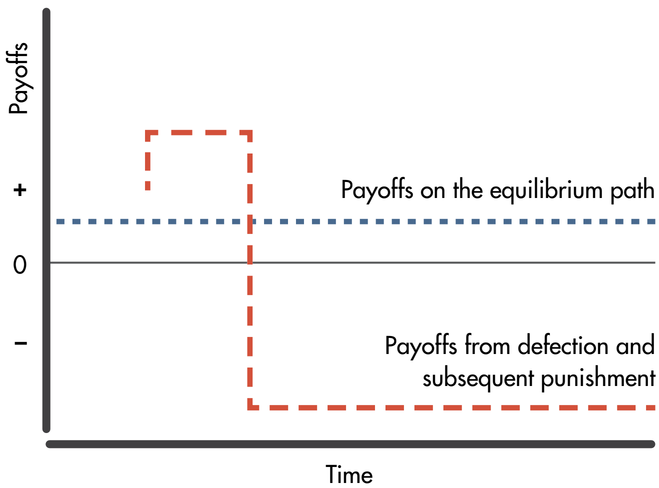
41 Tanzania is a relatively peaceful country, and so the risk of instability is perhaps over-played in the stylised model. Nonetheless, oil rents have had pernicious effects on stability in other countries; hence the model serves as a means of understanding the risks of future instability in Tanzania.

42 Tanzania's tax base is very narrow making the government's options in this respect quite limited.

43 Bates RH, *When Things Fell Apart: State Failure in Late-Century Africa*. New York: Cambridge University Press, 2008, p. 28.

Figure 2 demonstrates these incentives. The vertical axis shows the payoffs for the ruling coalition – the gains or losses associated with maintaining peace or risking insecurity by engaging in predation. On the horizontal axis is time. Governments with few threats to their rule have longer time horizons than those that are insecure.

FIGURE 2 EQUILIBRIUM PAYOFFS OVER TIME



Source: Bates RH, *When Things Fell Apart: State Failure in Late-Century Africa*. New York: Cambridge University Press, 2008, p. 18

'The dotted line represents the flow of payoffs that result from tax payments; the flow is steady, moderate, and positive in value. The dashed line represents the flow of payoffs that result from predation.'[44] If Tanzania's ruling party fails to govern the impending gas rents in a way that enhances the country's welfare, or at least gives that appearance, the risk to stability is heightened. The ruling party and its patronage network gain short-term payoffs high above the equilibrium (tax) line, but place the longer-term stability of the country at risk, for the reasons mentioned above. The next section briefly explores the risks facing Tanzania in terms of the game theory model outlined above.

CAN TANZANIA WITHSTAND PREDATION TEMPTATION?

There are three primary conditions under which political order, and therefore the foundations for inclusive growth, can be maintained or fortified.

44 *Ibid.*, pp. 18–19.

First is the level of tax revenue. If tax rates are too low, predation may be tempting despite the foreseeable costs.[45] There is a risk in Tanzania that the level of tax revenue accruing to the ruling coalition may be too low to mitigate the temptation of gas rent predation. A sufficient flow of tax revenues is one of the key variables to mitigate corruption that might otherwise occur through the siphoning of gas rents for distribution across existing patronage networks. As a recent Chatham House report indicates: 'In addition to the need to increase taxation overall is the need to diversify revenue collection from the current focus on large, often foreign, enterprises based in Dar es Salaam. These enterprises provide 88 per cent of tax revenue, despite generating only 17 per cent of GDP'.[46] The new government intends to increase domestic tax revenue collection; they are targeting inefficiencies in current collection efforts, and trying to root out corruption by customs officials. One example of these efforts is exemplified by the case of Rished Bade, the head of the Tanzania Revenue Authority, who was suspended from office in November 2015 upon discovery that $37 million worth of shipping containers had disappeared from inland depots that serve Dar es Salaam port.[47] If tax revenues are to grow and the sources thereof are to be diversified, the trust relationship between the government and the private sector will have to improve rapidly.

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The second condition for order is that the magnitude of rewards from predation should not be too large in relation to other sources of revenue (particularly taxation), as this may suggest to the ruling coalition that future instability is worth incurring against the immediate utility of large gas rents. A 2013 article in the journal *Foreign Affairs*,[48] estimated that the ratio of gas to tax revenue for Tanzania would be 1.3 to 1.[49] This is much lower than the ratio in places like Gabon, Angola and Liberia, where the ratio was estimated to be upwards of four to one. A lower oil price augurs well, although the volatility of prices can be as detrimental to long-run political stability as high rents. Mosbacher and Diamond, the authors of this article, write that oil-rich countries can suddenly become cash starved when high prices crash. Moreover, in the contexts of one-party dominance (as is the case in Tanzania), oil and gas wealth tends to entrench the power of the incumbent. In the absence of meaningful institutions of transparency and accountability, oil revenues can be diverted to political insiders, allowing them to further consolidate their positions of power.[50] Tanzania is therefore at risk of gas rents providing an avenue for elite predation.

45 *Ibid.*, p. 19.

46 Anyimadu A, *Politics and Development in Tanzania: Shifting the Status Quo*. London: Chatham House, 2016, https://www.chathamhouse.org/sites/files/chathamhouse/publications/2016-03-politics-development-tanzania-anyimadu.pdf, accessed 12 May 2017.

47 *Reuters*, 'Tanzanian president sacks port chief in anti-graft campaign', 8 December 2015, http://www.reuters.com/article/ozatp-uk-tanzania-politics-idAFKBN0TR0KM20151208, accessed 26 May 2017.

48 Diamond L & J Mosbacher, 'Petroleum to the people: Africa's coming resource curse, and how to avoid it', *Foreign Affairs*, 92, 5, 2013, pp. 86–98.

49 This ratio was calculated using tax revenues derived from comparisons of aggregate national tax revenues (using World Bank data) and projections of oil revenues based on estimated reserves, projected export capacity and estimated future oil prices.

50 Diamond L & J Mosbacher, *op. cit.*, p. 88.

However, the rents to taxation ratio suggests that the problem is not as daunting as in other places, especially in the context of lower foreseeable oil prices.

Third, the ruling elite must be relatively patient and not discount the future too heavily. This is a mildly paradoxical condition, in that parties like the CCM (in a one-party-dominant state) can afford to make policy decisions with a longer time horizon than their contemporaries in highly competitive democracies such as Ghana, where the ruling party often only has one term in office before the electorate votes them out. However, the resultant lack of demand for institutions of accountability (because citizens are unlikely to vote the CCM out of power) can also facilitate destabilising rent acquisition. Tanzania's CCM can afford, in electoral terms, to take a long political view. Internal power dynamics and the deeply embedded nature of grand corruption do, however, create a risk that the ruling elite may not opt for the most appropriate governance tools as they try to maintain the delicate double balance. The biggest recent corruption scandals in Tanzania strongly suggest that the government protects domestic business elites with strong links to the CCM.[51]

According to the Bates model, the strength of civil society also matters a great deal. The extent to which the citizenry will hold the government accountable for how it manages gas rents is crucial. A discussion of appropriate governance mechanisms follows in the next section, but whether these are implementable and credible for attaining accountability and fostering inclusive growth will depend on the willingness and ability of civil society to operate as a proficient watchdog.

Applying the model to the Tanzanian case, the literature suggests that civil society is relatively weak, largely for historical reasons.[52] It therefore seems unlikely to challenge the power of the state.[53] Many citizens are dependent, through patronage networks,

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51 See Gray H, *op. cit.*, pp. 393–394, for an important discussion on the internal factions within the CCM and how they have responded to each other when corruption scandals have come to light. The outcome of these cases is that the case-exposing faction calling for accountability still chose to stay within the CCM domain and did not break away.

52 The creation of a socialist system through the 1960s and 1970s consolidated power within the formal institutions of the ruling party by suppressing other potentially powerful groups. As a result, power in Tanzania has not been organised along regional, ethnic or class lines. The benefit is that Tanzania has been remarkably peaceful compared to its neighbours, Uganda and Kenya. The cost is that even after the 1995 move to multiparty elections, the scope for political mobilisation is limited. See Gray H, *op. cit.*, p. 396 onwards, for further discussion.

53 See Harvey R, *op. cit.*; Cooksey B & T Kelsall, 'The political economy of the investment climate in Tanzania', *Africa Power and Politics Programme Background Paper*, 1, June 2011; Kelsall T, 'Governance, democracy and recent political struggles in Mainland Tanzania', *Commonwealth & Comparative Politics*, 41, 2, 2003, pp. 55–82; Kelsall T & D Booth, 'Developmental Patrimonialism? Questioning the Orthodoxy on Political Governance and Economic Progress in Africa', *African Power and Politics Working Paper*, 9, 2010, http://www.institutions-africa.org/filestream/20110523-appp-working-paper-9-developmental-patrimonialism-by-kelsall-booth-july-2010, accessed 15 June 2017.

on the largesse of state officials for their welfare. 'While unlikely to resort to military activity, [citizens] are also unlikely to engage in productive activity if sufficient income can be derived through patronage, especially in a context of relatively limited economic opportunity for an expanding workforce.'[54] According to the model, citizens are unlikely to engage in revolt unless the government is perceived to favour one group over another in the distribution of future gas rents. Supporting this prediction to some extent, there was localised but severe conflict in the Mtwara and Lindi regions during the presidential campaign of 2013. Unmet expectations of wealth from the gas discoveries fanned into demonstrable opposition to extractive projects when the government announced that the gas would be piped directly to Dar es Salaam instead. Residents protested violently against the construction of the pipeline. More than 12 people died, and the police were alleged to have participated in the looting of citizens' property.[55] This suggests that the risk of revolt in an otherwise peaceful society may operate as a significant constraint on the actions of the state in terms of how it chooses to distribute the benefits of gas wealth.

Overall, however, civil society could be stronger, and will need to be strengthened in advance of gas revenues becoming a major factor in the country's political economy. Freedom House puts Tanzania's overall 2017 freedom score at 3.5/7. It scored a three on political rights and a four on civil liberties, and the media is assessed as 'partly free'.[56] A 2016 report noted that Tanzania had experienced more political engagement from opposition parties and civil society groups (despite the law prohibiting civil society organisations (CSOs) from engaging in political activities) since constitutional reforms were enacted in 2011 to allow slightly greater room for civil society to be involved in politics.[57] Nonetheless, in 2014, when the leader of the main opposition party, CHADEMA, was arrested, civil society did not respond to calls for public demonstrations against the CCM's abuse of power. And despite the growing number of non-governmental organisations (NGOs), they generally lack the organisational, advocacy and lobbying skills needed to meaningfully confront the state, choosing instead to focus on more local challenges.[58] It therefore remains a concern that 'the country has one of the weakest traditions of civil society organisations on the continent',[59] and that they are largely dependent on foreign donors for their survival. Strengthening civil society will require a concerted collective action effort from all foreign donors and domestic leaders. It appears that there are too many localised activities and a resultant lack of a unified

54 Harvey R, *op. cit.*, p. 19.

55 Marcelin Raphael Ndimbwa, Natural gas conflict in Tanzania and the impacts to the population in Mtwara municipality, M.Phil thesis, Norwegian University of Life Sciences, *Ås*, 2014, https://brage.bibsys.no/xmlui/bitstream/handle/11250/225343/ndimbwa_master2014.pdf?sequence=4, accessed 26 May 2017.

56 Freedom in the World 2017, 'Tanzania profile', *Freedom House*, https://freedomhouse.org/report/freedom-world/2017/tanzania, accessed 30 May 2017.

57 Bertelsmann Stiftung's Transformation Index, *Tanzania Country Report 2016*. Gütersloh: Bertelsmann Stiftung, 2016, https://www.bti-project.org/fileadmin/files/BTI/Downloads/Reports/2016/pdf/BTI_2016_Tanzania.pdf, accessed 30 May 2017.

58 *Ibid.*

59 *Ibid.*, p. 29.

vision. Localised initiatives are easier to fund, but they can fragment overall efforts at strengthening the ability of CSOs to hold the government to account. Also, many projects tend to disappear in the wake of donor fatigue, having gained insufficient local traction to be sustained. Pooling resources towards helping NGOs to improve the executive's transparency and accountability record may be a more efficient allocation of capital than donating money towards smaller projects.

GAS GOVERNANCE INSTITUTIONS

Beyond the generic governance concerns discussed above, and the instances of grand corruption involving the energy sector, negotiating capacity within the Tanzanian government has been questioned, though perhaps unreasonably so. Institutions of accountability are important governance mechanisms – a necessary condition for mitigating a potential slide into instability that characterises other African petro-states. But they are insufficient for ensuring that optimal deals are struck that use natural gas as a lever for economic diversification and inclusive growth. To ensure this, contract negotiating capacity should be developed, along with state capacity more generally. Only then will the de jure laws and policies become practicable and beneficial for development. This section deals firstly with contract negotiation and then with the laws and policies themselves.

A 2014 article in *The Economist* highlighted potential negotiating capacity problems.[60] In May of that year, part of a contract between the TPDC, Statoil (majority-owned by the Norwegian government) and ExxonMobil, was leaked online. The production sharing agreements (PSAs) that are negotiated between TPDC and oil majors are confidential although the government does have model guidelines for constructing PSAs, which the IMF uses to make profit and revenue forecasts. The online leak of the Statoil contract revealed that it differed significantly from the model: 'Tanzania would receive 30–50% of the "profit gas" (after costs are covered and royalties paid) rather than the 50–75% specified in the model agreements'.[61] Opposition critics calculated that this difference in terms could lead to a $12 billion revenue shortfall (of what could otherwise have been gained). The TPDC disputed the figure and argued that the country will obtain 61% of the profits once corporate taxes are included, plus 5% royalties. Statoil projects that 65–85% of the profit would accrue to Tanzania. In defending the contract, the TPDC attributed the discrepancy between the model and the actual contract to the high costs of deep sea exploration and the absence of infrastructure, pricing mechanisms and an existing market for the country's natural gas.

Whether or not the discrepancy is warranted, the IMF's call for public disclosure of the terms of the PSAs seems reasonable. While the government has apparently committed to

60 *The Economist*, 'Tanzania's troubles over gas revenue | Sharing the spoils: How should revenues from Tanzania's gas deposits be shared with oil firms?', 9 September 2014, http://www.economist.com/blogs/baobab/2014/09/tanzanias-troubles-over-gas-revenue, accessed 12 May 2017.

61 *Ibid.*

publishing all new contracts, this will not apply retroactively, and agreements are already in place for most of the known gas concessions. The good news is that, to list on the Dar es Salaam Stock Exchange, as the government will require all firms to do by August 2017,[62] contract terms must be made public. Moreover, as a recent working paper makes clear, the passing of the Tanzania Extractive Industries Bill in June 2015 'marks another step change in transparency'.[63] The authors conclude that the government's bargaining position has improved over the last decade, and concede that full transparency may not be feasible given competing investments in neighbouring countries such as Uganda and Kenya. However, the same paper acknowledges that the process of regulation formation, at least prior to 2015, has not exuded stability and may have undermined investor confidence.[64] The recent mineral export ban, imposed through executive fiat, is one example of what investors fear. For accountability's sake, the authors of the above-mentioned paper call for more robust involvement from the legislature to monitor deals and check the terms of contracts that cannot be disclosed to the public. As mentioned earlier, this will largely depend on the dynamics of coalition formation within the CCM and whether the pro-accountability faction can muster enough political will and capacity to do so.

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The de jure institutions governing the natural gas sector in Tanzania are as follows: The Petroleum Act, The Tanzania Extractive Industries Transparency and Accountability Act (TEITI), and the Oil and Gas Revenue Management Fund Act. These interact with (and are in some respects products of) international institutions such as the Extractive Industries Transparency Initiative (EITI) and the Natural Resources Charter, both designed to mitigate the resource curse.[65]

Tanzania was suspended from the EITI only a month after passing the Tanzania Extractive Industry Act in August 2015. It failed to submit its 2012/13 report in time (by June 2015), and was denied its application for an extension. The EITI is a voluntary set of principles countries comply with to maintain their listing. Its resource governance value addition is to promote the transparency of extractive industry revenue flows from companies to governments. It does not, however, require expenditure transparency from recipient governments. By December 2015 the suspension had been lifted, as Tanzania submitted its report before the end of that month (the required stipulation to avoid being delisted to non-compliant status).

One of the simultaneous strengths and weaknesses of the EITI is that it is a voluntary mechanism. This invites disclosure rather than compelling it. Countries can then choose

62 Ng'wanakilala F, 'Tanzania's Magufuli pushes for listing of mining firms', *Reuters*, 10 May 2017, http://www.reuters.com/article/us-tanzania-mining-idUSKBN1860VL, accessed 26 May 2017.

63 Pedersen RH & P Bofin, 'The Politics of Gas Contract Negotiations in Tanzania: A Review', The Politics of Oil/Gas Contract Negotiations series, Working Paper, 3, Copenhagen: Danish Institute for International Studies, 2015, p. 24.

64 *Ibid*.

65 Melyoki LL, 'The governance of the petroleum sector in Tanzania: Institutional arrangements and the role of the National Oil Company', *The Extractive Industries and Society*, 4, 2017, pp. 180–190.

to disclose as a function of endogenous motivation rather than external imposition. One of the ways in which to institutionalise EITI principles is to integrate them into domestic legislation, which Tanzania, to its credit, has done. The TEITI Act, for instance, demands that all new mineral and gas concessions, contracts and licenses are made available for public scrutiny. A roadmap to ensure disclosure of beneficial ownership has also been crafted. Beneficial ownership disclosure requirements are a crucial variable in the battle against illicit financial flows into nameless shell companies normally in tax havens or offshore jurisdictions, and these are written in.

The latest Tanzania EITI report (December 2015) identifies the adoption of the TEITI Act as a strength, along with the other pieces of legislation mentioned above, as indications of transparency principles being mainstreamed into mineral and gas administration

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The Petroleum Act regulates upstream, midstream and downstream activities, and establishes a Petroleum Upstream Regulatory Authority, 'to provide for the National Oil Company, to secure the accountability of petroleum entities and to provide for other related matters'.[67] The Act separates the functions of policy, commerce and regulation. This is a welcome departure from the previous regime that shared the responsibilities between the Ministry of Energy and Minerals and the TPDC, and bestowed excessive ministerial discretion on the minister himself.[68] The TEITI Act, in turn, is a departure from the Petroleum Exploration and Production Act of 1980, which allowed limited information disclosure. Inspired by the EITI, the new act repeals permissions for non-disclosure. The Oil and Gas Revenue Management Act provides the framework for fiscal rules pertaining to the management of oil and gas revenues. It also provides for the establishment of an Oil and Gas Fund,[69] a sovereign wealth fund in the mould of Norway's example.

Experts agree that these pieces of legislation exemplify the ideals of participative governance, appropriate separations of functions to avoid conflicts of interest, and limited ministerial discretion.[70] Whether or not they will produce socio-economic benefit remains to be seen. Local content provisions are one of the primary triggers that the legislation emphasises for domestic development. The Petroleum Act stipulates that the TPDC shall have exclusive rights over the natural gas midstream and downstream value chain to 'promote local content including participation of Tanzanians'.[71] The overall development idea of local content regulations in the gas sector is to develop local businesses to become internationally competitive in terms of meeting supply requirement standards for international oil and gas companies. Technology transfer to local Tanzanians from international experts is crucial for developing local talent, and this is envisaged to occur

66 Tanzania Extractive Industries Transparency Initiative, Final Annual Progress Report, January–December 2015, https://eiti.org/sites/default/files/documents/teiti-annual-activity-report-2015_0.pdf, accessed 26 May 2017.

67 United Republic of Tanzania (URT), Petroleum Act of 2015. Dar es Salaam: Government Printer.

68 Melyoki LL, *op. cit.*, p. 182.

69 *Ibid.*

70 *Ibid.*, p. 184.

71 URT, *op. cit.*, section 9 (2).

through the development of local training institutions. Experience from the mining sector suggests that local suppliers face significant barriers to entry into the supply chains for multinationals. To date, the government has not provided the business support required to help firms develop to the appropriate level. One study records that 'so far, there have been no efforts made by the government to support such business ventures, and mining companies' efforts to assist local suppliers to produce goods are seen by many as little more than lip service and publicity stunts'.[72] Melyoki suggests that in light of this, and the burdens placed on the TPDC for a host of other functions, 'it is advisable to assign the local content development responsibility to a different agency as well as allocate resources for execution of that role'.[73]

CONCLUDING REMARKS

This paper has examined the potential for Tanzania to harness its natural gas endowment as a lever for inclusive growth. A consensus has emerged in the 'resource curse' literature that governance institutions are the most important determining variable of whether natural resources will contribute to or undermine development. This is because the way in which resource rents are acquired and distributed affects current and future political equilibria. If these equilibria remain stable, resource rents can be employed to build a diversified economy. If resource rents become a site of predation for the ruling coalition of political and business elites, distortions to the equilibria may result in future instability and economic stagnation.

Tanzania has a sizeable natural gas resource. The proportion of that which is recoverable or economically viable to extract is yet to be fully established. The initial forecasts of the volume of revenue it will generate are likely overstated, given a declining oil price, combined with a potential decoupling of the LNG price from the oil price. Nonetheless, the world has not yet shown signs of ending its addiction to fossil fuels, despite strong climate change indicatives that make such a change imperative. There is, therefore, an opportunity for Tanzania to earn significant gas rents.

The discussion on grand corruption in Tanzania suggests that caution must be exercised. The ruling coalition appears to be internally divided, and this means that – to some extent at least – accountability for how the rents are governed may come from within. The opposition parties are not yet strong enough to call the government to account, and yet Parliament's importance for providing oversight for oil and gas contract management cannot be overstated. Of course, a history of grand corruption in the energy sector is not determinative. Magufuli, for instance, was initially accused of targeting petty corruption at a superficial level, but the fact that he has been willing to ask his energy minister to resign (the same minister that he re-appointed after a previous scandal), suggests that he may be willing to spend his political capital on rooting out grand corruption as well.

72 Lange S & A Kinyondo, 'Resource nationalism and local content in Tanzania: Experiences from mining and consequences for the petroleum sector', *Extractive Industries and Society*, 3, 2016, p. 1100.

73 Melyoki LL, *op. cit*., p. 189.

The game theory model revealed that the government faces a significant challenge in broadening its tax base and increasing its tax revenue collection. As long as gas rents have the potential to dwarf tax revenue, or even undermine the incentive to collect taxes, the already-weak citizen-state accountability link may be weakened further. While gas prices remain low, and production on the LNG plant remains stalled, every effort should be made to strengthen civil society with oversight and accountability skills. Patronage distribution can undermine such efforts. Natural gas rents pose a significant risk in this respect in that they help elites to expand client networks and undermine civil society efforts at holding the government to account.

New legislation to govern the gas sector looks promising, despite its rocky path to final adoption. Of concern is that stipulations for contracts to be made publicly available are not retroactively applicable, and many of the concessions have already been allocated and contracts finalised. It would likely undermine investor confidence to threaten a reversal of current terms, and Tanzania cannot afford this, especially as it is competing with Kenya and Uganda for investment in the sector.

Whether Tanzania's gas sector proves to be a blessing or a curse is dependent on the nature of the elite bargain. If the accountability-inclined faction of the CCM can hold sufficient influence in the Cabinet and in Parliament to ensure that de jure institutions become embedded, Tanzania will benefit from its natural gas endowment. The implementation of new gas laws will serve the country well. If these institutions are treated as irrelevant by those with de facto power, and predation gains the upper hand, the stability of the country's social contract may be threatened, which is sub-optimal for generating inclusive growth. Reliance on internal dissent within the CCM is not sufficient to hold the executive to account and build an inclusive, diversified economy, which is the primary aim of the Africa Mining Vision. Civil society will have to improve its overall efficacy, including the construction of a stronger opposition party to the CCM's one-party rule.

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