Mini Review – Natural Gas Management

An overview of the oil and natural gas revenue management in Tanzania. A mini review

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Abstract

Management of oil and gas resources or revenues from trans-boundary or disputes areas has always been an issue of controversy in most oil and gas resource-rich countries. Tanzania is among the developing countries which rise with rich in oil and gas resources. It requires more attention on how the revenues generated from these resources should be utilized sustainably. This paper, therefore, provides the current overview of the tools and institutions that offer the guidelines on oil and gas revenue management and distribution.

Keywords: Natural gas, Revenue management, oil and gas resources

Introduction

Over the recent years, most of the countries especially developing countries have discovered an abundance of natural resource wealth such as oil, natural gas and minerals which are expected to generate a lot of revenues(Hilson, 2014). However many countries do not see their expected returns of social and economic development when they discover natural resources. This challenge is in part linked to how the countries manage the natural resource revenues or the money received by the government because of the extraction or purchase of natural resources (Abubakr, Hooi, & Clark, 2017; Hamdi & Sbia, 2013; Van Alstine, Manyindo, Smith, Dixon, & AmanigaRuhanga, 2014).

Oil, natural gas, and mineral revenues are solely because they are finite, volatile and can depressingly distress other activities if they are mismanaged. They also generate large economic payments and are unique location, which can cause misunderstandings or shocks over their control (Dizaji, 2014; Emami & Adibpour, 2012; Farzanegan, 2011). As a result, they may require being succeeded and distributed differently from other types of government revenue.

There are numerous practices governments can employ to reply to the special encounters of natural resource revenues, including allocating revenues to natural resource funds, the state budget, state-owned companies, sub national organizations, or directly to the people in the form of cash. Each of these institutions requires a unique management strategy(US Institute of Peace, 2007; Venables, 2016). Large and volatile capital inflows also have unique repercussions for fiscal policy. It may require being adapted to adjust inflation, exchange rate appreciation or macroeconomic volatility. The government can make judgments to practice their natural resource revenues in a manner that has short and long-term positive socio-economic and political impacts in the nation(Corrigan, 2014). The review on how to create the impacts from the resource revenues mixes questions about the policy, revenue distribution and management tools, and socio-economic and political impacts of different revenue management choices (Sovacool, Walter, Van Graaf, & Andrews, 2016). The best management and allocation of the natural resources revenues such as oil and gas are considered through some policy concerns namely benefit across the country and generations, domestic versus foreign investments, managing volatility and expectations and growing the domestic economy(Natural Resource Governance Institute, 2015b) as shown in Table 1.

The recent oil and natural gas discoveries are deemed commercially viable and Tanzania is predictable to collect billions of dollars for supplementary investment in the short, medium and long-term period(Natural Resource Governance Institute, 2015a). To achieve this, initial successes such as oil and gas production for domestic electricity generation, the potential for gas liquefaction projects producing large quantities for both export and domestic use need to be achieved. However, conveying oil and gas to the market and produce revenue are multifaceted and necessitate overwhelming essential technical, fiscal and infrastructural encounters. This paper, therefore, is intended to provide the oversight of the current tools and institutions for oil and gas revenue management and distribution in Tanzania.

Tools and institutions for oil and gas revenue management and distribution in Tanzania

Natural Resource Governance Institute, (2015a) provides 12 principles which outline the decision-making and governance environment needed for effective resources revenue management in the country namely:-

- Policymaking and public participation
- Exploration and license allocation
- Taxation
- Local impacts and possessions
Table 1: Policy considerations regarding the decision on how to manage and allocate natural resource revenues such as oil and gas

<table>
<thead>
<tr>
<th>No.</th>
<th>Policy considerations</th>
<th>Explanation</th>
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<tbody>
<tr>
<td>1.</td>
<td>Benefit across the country</td>
<td>Natural resources revenue benefits should be distributed equally across the regions in the country</td>
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<tr>
<td>2.</td>
<td>Benefit across generations</td>
<td>Natural resources revenues should benefit the current and future generation</td>
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<td>3.</td>
<td>Prioritization of domestic investments</td>
<td>The main purpose of oil, gas or minerals extraction is to intensify the government revenues and advance community livelihoods through better access to social services such education, electricity, water, and healthcare</td>
</tr>
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<td>4.</td>
<td>Managing volatility</td>
<td>The government can choose to use tools like fiscal rules to smoothen the number of revenues that are spent annually. The capital expectations should be considered in making the decision of revenue expenditure</td>
</tr>
<tr>
<td>5.</td>
<td>Managing prospects</td>
<td>Natural resource revenues frequently come with large prospects for quick earnings, generating risk for conflicts or tempestuous governance. There is the need of investing in the projects that provide a quick tangible return to the citizens such as infrastructures. This should be done openly and transparently to aid the government in managing the expectations</td>
</tr>
<tr>
<td>6.</td>
<td>Growing the domestic economy</td>
<td>Investment in natural resources revenues aims to improve the domestic economy with the potential to increase jobs and tax collection</td>
</tr>
</tbody>
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- Nationally owned resource corporations
- Revenue dissemination
- Revenue volatility
- Government expenditure
- Private sector development
- Roles of multinational enterprises
- Accountability and transparency
- Role of the international community

To ensure the oil and natural sector benefit the current and future generation, the government of Tanzania initiated the special fund namely the Natural Gas Revenue Fund (NGRF) in 2015 for managing natural gas revenue which is also under the Wealth Fund. By establishing the fund, Tanzania has followed an example of more than 20 countries that up to date launched different types of fundraising systems that cover the revenue derivatives of mining operations.

For instance, Norway with the population of about 5,214,900, a number equal to all residents in Dar es Salaam region, launched a government Pension Fund-Global since the beginning of oil production in the 1960’s, with the objective of protecting the resources in order to benefit from the current to the next generation. Currently, Norway has the US $900 million savings (approximately Tshs 1,939 trillion) in the fund. In accordance with the present population, it is equally said that every citizen owns the US $173,007 (approximately Tshs 373 million). Although the law allows the government to take 4% of the money to carry out other development activities, especially investments due to economic independence, it is only last year that Norway planned to take that percent over to invest.

The establishment of the fund in Tanzania was proposed to the national natural gas policy of 2013 prepared by the Ministry of Energy and Minerals and was adopted by the cabinet in October 2013 (URT, 2013). According to the policy, the fund aims to ensure transparency and accountability during the collection, distribution, use, and management of the natural gas revenue. The policy states that clear guidelines will be made openly or through national negotiations for the short and long-term utilization of the fund.

In addition, the policy emphasizes that the management and use of the natural revenue fund must be consistent with national development plans and strategies. Basically, the fund is expected to maintain to revenue that will be derived from gas operations for investment in other sectors, as well as providing financial and social development and consideration for savings for the future generation.

With the introduction of the fund, there will be an annual discussion on the part of the natural gas revenue that will be incorporated into the national budget. The fund is managed and operated by the Central Bank of Tanzania and will be audited by a specific Tanzanian government-based unit established in 2015 to manage the income of the natural resources. Tanzania has been conducting research on gas availability for more than 60 years now when the first discovery of the natural gas was held on Songo Songo Island in 1974 followed by another discovery in Mvazi Bay in 2006 (Boma, 2013).

Since 2010, there has been a significant discovery of gas in the coastal areas. Tanzania’s new-found gas reserves are esteemed at an estimated of US$ 20 billion (Fletcher, 2014). This development is deliberated as the predictions to yield revenue which will support Tanzania to realize its goal of flattering a middle-income country by 2025. However, there is one fundamental question and how the government would manage the fast-growing natural gas industry in the country. The only solution was the drafting of the national policy on natural gas which was adopted by the cabinet on 10th October 2013. The policy was adopted in accordance with the National Five-Year Development Plan (2011-2015), the National Plan for Growth and Poverty Reduction (2010-2015) (URT, 2011) and various sectoral policies, has been centered on five aims as follows:-

- To ensure that the government and citizens benefit from the gas industry
- Promote and strengthen the management and human resources systems in the gas industry
- Strengthening transparency and accountability
- Establish a comprehensive system for disaster management, protection of the health of the people,
security, and tourism

- To incorporate the gas industry into a broader economy with a view to changing social and economic conditions

The policy incorporates about 15 goals which include:-

- Developing natural gas management infrastructure
- Simplifying gas transportation by conducting liquid, gas transport, storage, and distribution
- Ensuring the natural gas revenue is managed effectively and enhanced efficiently
- Strengthens the relationship between the gas sector and other economic sectors
- Ensuring that the government and the citizens have sufficient expertise to participate efficiently in the value chain in the natural gas industry
- To strengthen, control and evaluate transparency and accountability in natural gas activities
- Effectively managing the public expectations about the benefits derived from the country

Although the natural gas industry involves three areas that are research and production; freight and transportation; and gas cleaning, the policy focuses on the transportation and gas cleaning while research and production areas will be dealt by other policies (Lovett, Mndolwa, Metcalf, & Kiwelu, 2014). Not surprisingly, according to gas analysts, it seems to put the country in danger as integrating research and production activities into policy would enable the nation and the people to participate and benefit from the natural gas since in the initial stage research and production are very important (UNDP and URT, 2014).

The government has dedicated that does not plan to take all the revenue that is generated from the gas industry and put them in the Treasury as in the mining sector. Revenue from natural gas will be deposited in a specific fund and it is responsible for Tanzanians to prioritize the use of revenue, a process that will simplify the people’s direct involvement with their natural resources. In order to ensure good and effective management in the natural gas industry, the policy has proposed strengthening power in the financial, legal and regulatory framework. This is what led to the formation of the Oil and Natural gas Revenue Management Act of 2015 (URT, 2015a), but also other specific laws that regulated or modified including the natural gas regulations and Income Tax Act (Cap. 332) and the Energy and Water Utilities Authority (EWURA) Act (Cap. 414) (EWURA, 2017).

The policy recognizes the central government, the local government authorities, the Tanzania Petroleum Development Corporation (TPDC), the regulatory authority, the Central Bank of Tanzania, the private sector, institutions of education and research, media, social institutions as the primary institutions in themanagement of the natural gas sector. Despite the presence of a lot of natural resources, the increase in oil and gas discovery, as well as the increase in the investment in the sector, the growth of the economy and the growing poverty, has become a portrait of developing countries like Tanzania that have been allocated to the natural resources.

To ensure that revenue derived from oil and gas minerals benefit the people and avoids what is known as ‘resource curse’, efforts to integrate policy enabling and involving the indigenous people in various countries with such resources must be fastened. Tanzania, amongst the countries with a lot of natural resources, has passed the policy for empowering the local community in the oil and gas sector in 2014 (Lee & Dupuy, 2016).

There are a lot of information and insights on the notion of empowerment and participation. The policy of empowerment and participation of local community of 2014 on oil and gas sector interprets ‘empowerment and participation’ as the benefit obtained from the oil and gas activities through participation and promotion of the local community (Tanzanians), and their businesses through employment, technology, goods, services, investment and promotion of professional research in the industry (Kilewo & Frumence, 2015; URT, 2014).

In addition, the policy emphasizes that Tanzanian business participation can be implemented through:- developing professionals, jobs, and training for Tanzanians, investing in service supply and products with the aim of lobbying companies operating oil and gas industry in the country to make their purchases in the country.

In general, in the oil and gas industry, empowerment and participation are the government’s efforts to ensure that most of the products and services needed in the production chain are accessible in the respective states where extraction activities are being assumed and not imported from abroad.

The 2014 empowerment and participation policy focus on three key areas that are the basis for achieving Tanzanians empowerment and participation in the oil and gas sector. These areas are:-

- The organization of strategies for implementing empowerment and participation with the aim of producing different skilled workers and knowledge
- The development of specific strategies for promoting the supply of technology and knowledge from overseas as well as investing in the area of research and development in the oil and gas sector
- A set up of the system that will enable Tanzanians and their businesses to take full advantage of opportunities to manage, distribute their products, service, and expertise to the oil and gas industry

To achieve this, the policy experts in the government institution and oil and gas companies must work together to ensure adequate presence of skilled and expertise Tanzanians that are crucial in implementing and fulfilling the goals of the oil and gas sector. The policy identifies five areas of management in the oil and gas sector in the country:-

- Promoting Tanzanian capabilities and exporting technology
- Tanzanians participation with foreign companies
- Purchasing and consumption of Tanzanian products and services
- Production of goods within the country
- Economic and social benefits from the oil and gas sector

The main objective of the policy is to provide guidelines to achieve a high level of participation in Tanzanians empowerment and promotion in the oil and gas sector development to safeguard that Tanzanians benefit from oil and gas investments. Specific objectives are:-

- To strengthen technology to Tanzanian businesses so
that they can compete with foreign entrepreneurs to meet the requirements of oil and gas sector.

- Seeking technology from abroad for the purpose of increasing productivity in the oil and gas sector management
- Enabling educational institutions in the country to afford proper training for the oil and gas industry
- To guarantee skilled and experienced Tanzanians are actively involved in all aspects of the oil and gas sector
- Increasing value of the oil and gas companies are making purchases of Tanzanian goods and services in accordance with their terms of reference
- Strengthening gender issues in the oil and gas sector and addressing HIV/AIDS transmission as well as other infectious diseases

Under the Petroleum Act of 2015, research or resource development applications should include recommendations on training and employment for Tanzanians. However, the Tanzania Energy Policy of 2003 also describes issues relating to the empowerment of Tanzanian integration in the oil and gas sector, and a strong emphasis is placed on facilitating empowerment and participation (URT, 2003, 2015b). Furthermore, the guidelines for the Model Production Sharing Agreement of 2013 also highlighted in paragraphs of 20 and 21 the importance of empowerment and participation of Tanzanians, and are regularly reviewed to suit the development of the sector (TPDC, 2013). This guide instructs how to enable and involve local people in oil and gas sector. According to the Petroleum Act of 2015, the Tanzania Petroleum Development Corporation (TPDC), on behalf of the Ministry of Energy, is responsible for managing the implementation of components relating to the empowerment and participation of Tanzanians in the guidelines for the model production sharing agreement (URT, 2015b). The Ministry for Energy in accordance with relevant policy and law should consult with government institutions involved in the oil and gas sector to suggest how to influence foreign companies to develop the technological capacity and skills of Tanzanians and Tanzanian companies to establish industries and production units (MEM, 2018).

The policy also proposes the establishment of the Petroleum Management Authority and the Independent Committee that will oversee the implementation of the policy. The policy has established a national committee which has been entrusted with coordinating and managing the full implementation of the policy where the task of the committee is to manage, coordinate, monitor policy implementation in collaboration with various institutions to review, analyze and adapt programs for facilitating and integrating Tanzanians (including trade, capacity, procurement, imports, employment and strategy of Tanzanians), through different reports submitted by operators and partners with the private sectors to enable Tanzanians to make full use of the existing opportunities.

The committee should be under the chair of the Ministry of Energy and will have representatives from the Ministry of Energy, the Ministry of Trade and Industry, Attorney General, Ministry of Finance, Labor and Employment Ministry, Presidential Office-Policy Center, the Prime Minister’s Office, Tanzania’s Procurement Authority, Tanzania Revenue Authority, Tanzania Private Sector Institution (TPSF), Trade Union, Industry and Agriculture (TCCIA), and two representatives from civil society organization.

Basically, research and production of oil and gas in Tanzania are governed by the 1980’s Research and Production Act (Section 328, 2002) which implies to Mainland and to the Islands. The law was enacted following the discovery of gas in Songo Songo Island in the 1970’s while Tanzania had made a small gas discovery compared with current 57 trillion cubic feet (Olingo, 2017). The law has put into place issues such as administrative issues relating to the provisions of research licenses, the management capacity for the ministries, the rights, and responsibilities of the licensed persons.

On the other hand, it describes the rights of victims or disadvantages in research and promotion processes as well as how to resolve conflicts and identify costs related research and promotion. The Act creates the office of the commissioner responsible for petroleum affairs, the commissioner has been legally authorized to appoint any person an officer who has been authorized to assist him/her in the implementation of the law. TPDC, although is not directly recognized in the law, has objectives that are directly involved with its implementation when the commissioner’s office on the petroleum and the TPDC issues collectively carry out the responsibilities of the Ministry of Energy (Lee & Dupuy, 2016).

The law states clearly that no one is permitted to conduct research or promotion of petrol operations without having the licenses issued to individuals who are Tanzanians or companies registered in Tanzania under the Companies Act or any other law other than that of the company.

The instructions available in research and promotion licenses include the date of release, search areas, dissemination and terms, and the Act also deals with the procedures for restoring, transferring, terminating and suspending the license. The law has elaborated on the dispute resolution process where the commissioner has been given the capacity to decide on disputes that arise or relate to the person conducting research and promotion activities.

Those who are dissatisfied with the decision or statements made by the commissioner have been given an opportunity to appeal to the Supreme Court of Tanzania within 60 days after the decision made by the commissioner. The law has given the Minister the ability to make regulations and procedures to simplify the implementation of the law, but it is a few principles and procedures that are made. This is a challenge for the implementation of the policy and act. Since the law was instituted when the gas discovery was too low compared to the current large discovery of reserves, it is imperative that there is need of the law which will be specific for the natural gas sector in order to set up clear guidelines in the sector that will address key issues emerging from the growing sector.

Furthermore, In July 2017, Tanzania’s parliament approved the Natural Wealth and Resources and the Natural Wealth and Resources Contracts Acts which offer the directions on how to utilize oil, gas and minerals resources (Olingo, 2017).
Remember “Sustainable economic development cannot come from merely extracting a resource. Authorities must finance revenues so that current and future generations enjoy the wealth” (Natural Resource Governance Institute, 2015b).

The summary of the responsibilities of the tools and institutions regarding oil and gas revenue management in Tanzania is indicated in Table 2.

### Conclusion and remarks

Oil and gas revenue management systems are most prosperous when they are premeditated to permit for strong oversight. Oversight can safeguard the revenues from the challenges of popular socio-economic and political demand and corruption. Good oversight schemes should include the transparency in revenue management and rules that regulate legal and policy decisions; regular reports and audits of the firms and government; separation between makers and oversight panels; and strong legal and political actions against anyone who misuses the generated revenues.

### References


