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Resource nationalism and local content in Tanzania: Experiences from mining and consequences for the petroleum sector

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ABSTRACT

Many resource-rich African countries have recently drafted local content policies for their petroleum sector. Using Tanzania as an example, this paper argues that previous experiences in the extractive industries are a central factor for public sentiments and debates on resource nationalism and local content in the petroleum sector. The paper focuses on the shifting local content polices in the mining sector over the last two decades and presents some of the initiatives that mining companies have taken to increase the local content. The 2010 Mining Act has weak and unbinding requirements on local content. National statistics show that there has been no increase in the local purchase of goods and services and that the percentage of expats in the sector has been relatively stable over the years. As in other African countries, local content is subject to elite capture and patronage, but support to cooperatives is one way of involving local communities in a positive manner. Discontent with the contribution of mining to the national economy entailed a heated debate on local content policies for the petroleum sector, but the legislations that were put in place in 2015 ended up being relatively 'soft', due to the fear of losing investors.

1. Introduction

Over the last decade, local content has received increasing attention in resource rich developing countries. Local content policies and legislation typically require investors to purchase a certain percentage of goods and services within the host country, and to train and hire national staff. In Sub-Saharan Africa, at least 11 countries have recently formulated local content policies for their oil and gas industries, or are in the process of doing so (Ovadia, 2012, 2014; Ablo, 2015). The main goal of local content initiatives is to increase the economic benefits from natural resource extraction. In the African context, local content is seen as a potential solution to the sky high rates of unemployment among youth on the continent, envisaged to possibly reduce social unrest and violence and contribute to the industrialisation of resource rich countries (Ovadia, 2012:139). However, many scholars have emphasised the potential negative consequences of local content polices in countries with flawed institutions, specifically those characterised by rent seeking behaviour and patronage (Wiig and Kolstad, 2010; Oguine, 2011; Ovadia, 2014; Hansen et al., 2016). There are also concerns that strong and binding regulations for local content may limit companies' ability to generate income and thus host countries' revenues from the sector (Oguine, 2011; Kolstad and Kinyondo, 2015).

In Tanzania, large reserves of natural gas were discovered in 2010; the country is projected to become one of the major gas exporters in the world within the coming 20 years. There have been heated debates on local content in the country, and petroleum companies have faced very strict restrictions on work permits for expats. This is a requirement that companies find inappropriate since in their view, the required competence is not yet available in Tanzania.

This paper focuses on the shifting local content polices in Tanzania over the last two decades, and presents some core facts on the contribution of large-scale mining to the national economy in terms of revenues and local content. Our aim is to contribute to an understanding of the immense interest in local content in Tanzania in recent years, and to present some of the challenges and successes in local content development so far. Our study shows that there has been a focus on quantity rather than quality in the reporting of local content, that there is a need for a stronger regulation of local suppliers to make them adhere to ethical standards, but also that investment in training and local

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cooperatives can be beneficial for both corporations and host communities.

Landmark work on resource nationalism, undertaken in the 1970s, focused on the cyclical relationship between resource prices and resource nationalism (Vivoda, 2009). Recent work on resource nationalism and local content emphasises the role of political institutions (Wilson, 2015), historical factors (Bremmer and Johnston, 2009; Andreasson, 2015) as well as the politics of identity and social justice (Childs, 2016). This paper contributes to these debates by demonstrating that a country's former experiences with foreign investment in the extractive industries, as well as politico-historical factors, forcefully feed into the public debates and sentiments concerning resource nationalism and local content.

The paper is structured as follows. The section following this introduction presents the research methodology. Section 3 briefly examines the literature on resource nationalism and local content with a focus on experiences in Sub-Saharan Africa. Section 4 describes the mining sector in Tanzania, the legislative framework from the late 1970s up until today, and some core facts on large-scale mines and local content. In this section, we present statistics and qualitative research findings on employment and the procurement of goods and services. Section 5 looks at discrepancies in the reporting on local content. Section 6 presents the impact of the experiences from mining on the debates on local content in the petroleum sector. The concluding section argues that while public sentiments in Tanzania are in favour of resource nationalism, the petroleum legislation that was passed in 2015 is relatively 'soft', reflecting the government's limited space for negotiation and fear of losing investors.

2. Research methodology

The paper draws on interviews and meetings with a broad range of stakeholders in Tanzania between August 2014 and May 2015 in Dar es Salaam, as well as in Geita, Kahama, Msalala, and Tarime districts. Meetings were held with officials from the Tanzania Petroleum Development Corporation (TPDC), the Ministry of Energy and Minerals, the Tanzania Revenue Authority (TRA), the National Bureau of Statistics (NBS), the World Bank, IMF, British Gas and Statoil. A total of 33 semi-structured interviews were carried out with the following stakeholders: Government representatives (State Mining Corporation, Ministry of Labour and Employment, local authorities in Geita District Council, Msalala District Council and Kahama Town Council), mining companies (Acacia, formerly Barrick Africa, Geita Gold Mine), representatives of the private sector (Tanzania Private Sector Foundation), suppliers (the catering firm AKO and Bamboo Rock Drilling), civil society organizations (Tanzania Extractive Industries Transparency Initiative, Natural Resource Governance Institute, Policy Forum, Lawyers' Environmental Action Team), as well as consultants and academics (UDSM staff and three independent consultants).

Site visits, organized by Acacia, were made to three Acacia mines: North Mara, Bulyanhulu, and Buzwagi. In addition, experienced research assistants conducted 31 structured interviews with representatives of local governments, suppliers, and civil society organisations in Geita and Kahama Town Councils, hosts to Geita Gold Mine and Bulyanhulu Gold Mine. In 2014, these two mines together accounted for more than half of the country's total gold production (TMAA, 2015).

The main aim of all interviews was to understand the local content in the mining sector from a historical perspective, the efforts made to enhance local content, and the challenges met. Quantitative data were drawn from the most recent TEITI and TMAA reports (TEITI, 2014; TMAA, 2015), as well as from mining companies' reports.

3. Resource nationalism and local content in africa's extractive industries

It has been argued that a new tide of resource nationalism is presently taking place globally, including in Africa (Andreasson, 2015; Wilson, 2015). A government's motivation for pursuing resource nationalism is closely connected to the power balance between it and international companies, and in the classical economistic market cycle bargaining model developed by Vernon in the 1970s, is cyclical, and causally related to world market prices and industrial maturity (Vivoda, 2009; Wilson, 2015). Recently, scholars have sought to place resource nationalism into different categories linked to political systems and historical legacies. For example, Bremmer and Johnston (2009) have suggested the following categories: 'revolutionary resource nationalism', 'economic resource nationalism' and 'legacy resource nationalism'. In another example, Wilson (2015), based on a survey of 12 countries, has come up with the following divisions: 'rentier states', 'liberal market economies', and countries characterized by 'developmentalism'. The author argues that market prices should be seen as enabling factors only, while political institutions influence the types of strategies that states adopt.

Local content policies are perhaps the most widespread form of resource nationalism at present. It is estimated that approximately 90% of resource rich countries have introduced some form of local content requirement, most of them quantitative (Dobbs et al., 2013). Quantitative requirements, Ramdoo, (2015) explains, "impose quantitative requirements on companies in the form of legally binding targets, generally in terms of volume (for example, the number of local staff to be employed or the number of contracts to be awarded to local suppliers) or value (that is, a percentage of spending on local procurement)". Qualitative requirements, on the other hand, are policy tools, pieces of legislation, and contractual agreements that are generally less constraining, aiming at "transfer of technology or training of staff" (Ramdoo, 2015:2).

In Sub-Saharan Africa, Angola, Nigeria, and South Africa have been identified as countries that score high on the level of requirements for employment, procurement, ownership and reporting (Ramdoo, 2015:18; Ovadia, 2016). Together with Brazil, Nigeria and South Africa have a comprehensive legal framework accompanied with penalties for non-compliance (Ramdoo, 2015:18). Legal frameworks are no guarantee for local content actually being implemented in the envisaged way, however. In the case of Nigeria, for example, the Nigeria Local Content Act has been criticized for being too ambitious, setting unrealistic targets. Having penalties in place will be of little or no use if the required goods and services are simply not available in the country (Oguine, 2011:421).

Some scholars are very clear in their support for local content policies. For example, on the basis of his work on local content in Angola and Nigeria, Ovadia, (2014) argues that "local content may be the single most significant innovation in energy policy in the Global South in recent decades" and that "local content – properly implemented and supported by various stakeholders – offers new potential not only for sub-Saharan Africa's current and future oil exporters, but for all countries with significant natural resources wealth" (Ovadia, 2014:138). But it is important to take stock of the author's precondition: that it must be "*properly implemented and supported by various stakeholders*". More recently, Childs, (2016) argued that "resource nationalism symbolically equates increased national control of extractive resources with the more equitable distribution of their benefits" (Childs, 2016:544). However, in a number of countries, local content policies have facilitated patronage mechanisms, and local content policies may thus serve to enhance elite interests rather than the overall economic benefits for the country and the poor. In Angola and Nigeria, simplistic

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