

Andrzej POLUS

University of Wrocław

andrzej.polus@uwr.edu.pl

Wojciech TYCHOLIZ

University of Wrocław

wojciech.tycholiz@uwr.edu.pl

GOLD, GAS AND LIES

EXTRACTIVE SECTOR IN A SUB-SAHARAN FUNCTIONAL STATE. THE CASE OF NATURAL RESOURCE SECTOR IN TANZANIA¹

ABSTRACT

Tanzania is usually presented as the most stable state in East Africa. Nevertheless political stability did not go hand in hand with economic development. The recent gas discoveries raised the issue of Tanzania's readiness for the development of gas sector that will benefit the entire country instead of the rent orientated political elite. The development of the gas sector (although final decision about LNG terminal construction has not been taken yet) is correlated with President John Pombe Magufuli (JPM) takeover of power and substantial changes on Tanzanian political scene. The Authors posed a question about the basis for a robust mining sector development in Tanzania under President Magufuli. The article's first part presents Tanzania within the frameworks of "competitive-authoritarian regime" or "developmental neopatrimonial state". Then we ask whether the system that catapulted JPM to the top job in the country can be changed from the inside? Subsequently, we present dysfunctionalities of

¹ This article is the effect of the research project Weryfikacja hipotezy kłątwy surowcowej w Afryce Subsaharyjskiej. Przypadek Tanzanii, financed by the National Science Centre (Poland) – UMO-2015/17/B/HS5/00473.

the Tanzanian mining sector with the special emphasis on gold mining, as well as challenges ahead of the country's nascent natural gas sector.

Key words: Tanzania, John Pombe Magufuli, gold mining, natural gas, developmental state

John Pombe Magufuli's supporters and critics both agree on one thing: Everything this president has done has been unprecedented in the history of Tanzania.

New African

INTRODUCTION

The main research question the authors were trying to tackle during the work on the article was devoted to the possibilities of a robust mining sector development in Tanzania, which is usually presented as an example of political stability in Sub-Saharan Africa.

The article is written within a theoretical framework of international political economy, with the core assumptions that political institutions, political environment and economy are mutually constitutive. In a broader sense, this manuscript might also be seen a part of the debate regarding developmental states in Sub-Saharan Africa and the issue of the Tanzania's place (and possibilities of change) in the international division of labour.

Over the last three years, the authors have been conducting extensive research on the Tanzanian extractive industry, especially the nascent gas sector as well as the role of political institutions, including the role of the Presidential Office, particularly under the current president John Pombe Magufuli. The preliminary findings were then verified during field research in Tanzania in September and October 2016, when over 30 semi-structured in depth interviews were conducted with Tanzanian politicians, civil servants, civil society organisations leaders and representatives of international gas producing corporations.

The article is organised as follows: the first section presents narratives on Tanzania's political stability. The second section is devoted to the "Magufuli effect" in Tanzanian politics – the consequences of John Pemba Magufuli's political and economic strategy aimed at transforming Tanzania into a middle income country. Subsequently, the developments in gold mining were presented and Tanzania's capabilities as well as challenges lying ahead of the country's nascent natural gas sector. The last section forms a conclusion.

NEITHER DYSFUNCTIONAL STATE NOR A SUCCESS STORY

Tanzania, at least until most recently, has been portrayed as the most stable country in East and Central Africa. *New African*, one of the most influential magazines devoted to the critical analysis of the current situation in Africa, in 2017 described Tanzania as “Africa’s new rising star”.² International financial institutions and consulting companies appreciated high (around 7% per year) and sustainable economic growth during the last decade.³

On the other hand, however, Tanzania is among 25 world’s poorest states, ranked at the bottom of human development index (position 154 in 2018) with severe shortages in infrastructure and social services. Tanzania has also one of the world’s highest population growth (3.2% per annum), and the country’s population is projected to reach 100 million in 2035, which poses multiple questions in terms of food security, job opportunities and provision of basic services by the state. The recent gas discovery makes one wonder whether this developing state will be able to sufficiently enhance institutional capacity for the gas sector governance. This question seems reasonable considering Tanzania’s everything but positive experiences with gold (Tanzania is Africa’s fourth-largest gold producer) and tanzanite mining companies, as well as recent government clash with gold mining corporations.

The relations between mining corporations and the government take place within peculiar political regime, which is usually classified as a hybrid regime, where democratic institutions exist and are crucial for obtaining political power but for various reasons it is very difficult to challenge the ruling political elite. Moreover, Tanzania can be classified as a “competitive-authoritarian regime” or “developmental neopatrimonial state”. The former presidents of the Republic had dominant influence on the country’s political development⁴ as a result of the power concentration in the presidential office. Most articles devoted to Tanzania’s history are devoted to the Republic’s presidents and their influence on the country’s development trajectories. Similarly, in this article we turn out attention predominantly to the current president’s decisions and changes he introduces to the political regime.

Since around 2017 Tanzania has been presented by some media as a country where democratic freedoms are under threat. The Republic’s President, John Pemba Magufuli, who – among others – banned political rallies and stopped live broadcasts of Parliamentary debates, became the target of neoliberal media. *The Economist* called him in March 2018 “an authoritarian and erratic president” who “threatens to undo much that

² A. Versi, E. Kabendera, “Africa’s new rising star”, *New African*, June 2017, p. 14-19.

³ “The World Bank in Tanzania”, *World Bank* (2018), at <<http://www.worldbank.org/en/country/tanzania/overview>>, 8 October 2018.

⁴ B. Ndulu, N. Mwase, “The Building Blocks towards Tanzania’s Prosperity. Lessons from Looking Back, and the Way Forward”, in C.S. Adam, P. Collier, B. Ndulu (eds.), *Tanzania The Path to Prosperity*, Oxford 2017.

Tanzania has achieved over the past few decades”⁵ In similar tone, the Freedom House reported both worsening of political environment and limits in press freedom.⁶ Due to a growing number of reports on politically driven violence, the Conflict Barometer ranked political conflict in Tanzania in 2018 as “violent crisis”.⁷

Nevertheless, it should be admitted that despite unprecedented number of casualties and potential escalation of the conflict, the politically motivated violence outbreaks were geographically limited only to the Pwani Region. Despite the recent change of narrative and claims of “transforming Tanzania from a flawed democracy into one of Africa’s more brutal dictatorships”⁸ the country remains politically stable and opinions about the “first symptoms of state failure”⁹ seem to be exaggerated.

Besides multiple controversies, mainly devoted to the arbitrary adopted criteria of state’s fragility/failure by the Fund for Peace and labelling certain states as ‘fragile/failed’ by the Western based think-tank, the Fragile State Index (FSI, previously known as Failed State Index) remains the major point of reference while ruminating on the internal stability of Sub-Saharan states.¹⁰ In 2018 Tanzania was ranked as 64th among 178 countries listed; and was the seventh least fragile state in Sub-Saharan Africa¹¹ and the most stable state in East Africa. As presented below in the Figure 1, the last three years are perceived as a minor improvement in Tanzania’s ranking, while its current position is also slightly worse than the one she had over a decade ago. Nevertheless, Tanzania did not experience in recent decade neither a dramatic crisis of governance nor substantial improvements in this regard.

Despite its ethnic heterogeneity (there are over 130 ethnic groups), Tanzania, at least until 2017, was recognized by the lack of politically driven violence. The notable exception was Zanzibar where tensions between the ruling party and the opposition were high and all elections in 21st century were accompanied by riots.¹² During the

⁵ “How to save Tanzania”, *The Economist*, 17 March 2018, at <<https://www.economist.com/leaders/2018/03/17/how-to-save-tanzania>>, 10 October 2018.

⁶ “Key Developments in 2016: Tanzania”, *Freedom House*, at <<https://freedomhouse.org/report/freedom-press/2017/tanzania>>, 10 October 2018.

⁷ Heidelberg Institute for International Conflict Research, “Conflict Barometer 2017”, HIIK, Heidelberg 2018, p. 104.

⁸ “Democracy under assault: Tanzania’s rogue president”, *The Economist*, at <<https://www.economist.com/middle-east-and-africa/2018/03/15/tanzanias-rogue-president>>, 15 March 2018.

⁹ I. Lipumba, “Insight: Symptoms of early stages of failed state now appears in our midst”, *The Citizen*, at <<http://www.thecitizen.co.tz/News/Business/INSIGHT---Symptoms-of-early-stages-of-failed-state-now/1840414-1913460-nw8oln/index.html>>, 13 July 2013.

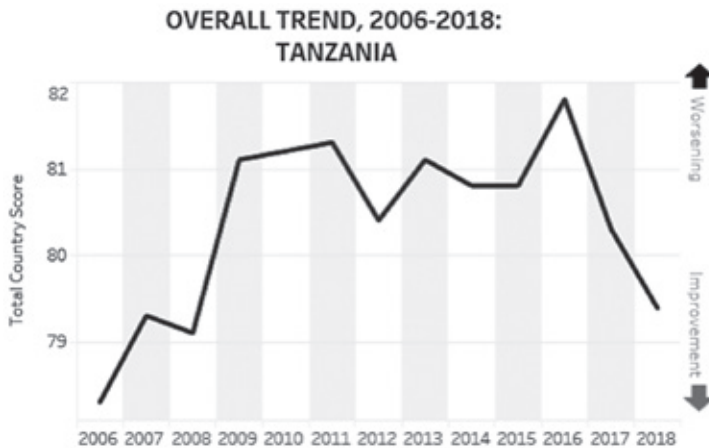
¹⁰ J. Di John, “The Concept, Causes and Consequences of Failed States: A Critical Review of the Literature and Agenda for Research with Specific Reference to Sub-Saharan Africa”, *The European Journal of Development Research*, vol. 22, no. 1 (2010), pp. 10-30. However, despite the critique, the strongest argument for referring to the FSI is the fact, that the index is created according to the same methodology for more than a decade so that certain trends can be determined.

¹¹ Higher scores in Fragile States Ranking 2018 were achieved only by: South Africa, Gabon, Sao Tome and Principe, Namibia, Cabo Verde and Botswana,

¹² B. Killian, “The state and identity politics in Zanzibar: challenges to democratic consolidation in Tanzania”, *African Identities*, vol. 6, no. 2 (2008), pp. 99-125.

field research we discovered that many people living on Zanzibar were complaining about the Island's underrepresentation in the Union and economic exploitation by the mainland Tanzania. Another area of conflict is related to the Zanzibar's right to manage and develop its extractive sector independently from the Union.¹³

Figure 1. Tanzania in Fragile State Index (2006-2018)



Source: Fund for Peace, *Fragile State Index*, at <<http://fundforpeace.org/fsi/country-data/>>

Tanzanian elections were usually described as “free and fair” and the “third termism” (changes of constitution aimed at a prolonging the stay in power by the ruling elite) have never been an issue here, since every successor of Julius Nyerere was leaving the office after two five years terms. It must be admitted, however, that the election of John Pemba Magufuli (nicknamed JPM or “the bulldozer”) was associated with reports about multiple divisions in the ruling party and potential internal opposition to the reforms he planned. Nevertheless, at least rhetorically, the Party remains united under JPM leadership¹⁴ (the issue of the president’s control over the party is presented more broadly in the next section of this article).

In the official narrative, the legacy of Julius Nyerere¹⁵ and the existence of Kiswa-

¹³ This paper focuses on the mainland Tanzania, nevertheless it is worth noting that the issue of Zanzibar’s right to issue mining licences and, more importantly, to collect revenues and use them independently from the Union, was debated from 2002, when Shell was considering exploration activities in four blocks along Zanzibar and Pemba.

¹⁴ Interview with an anonymous source (advisor to the CCM board), CCM Headquarters, Dar es Salaam, 27 September 2016.

¹⁵ Nyerere pictures were on the walls of every state office we visited next to pictures of the incumbent president. Interestingly, during the field research, the legacy of Julius Nyerere was important to both CCM and opposition parties. The opposition argued that CCM betrayed Nyerere’s ideals, and “if Mwalimu was alive, he would join the opposition”. One of the Chadema leaders claimed, that Mwalimu (Nyerere nickname meaning “teacher”) despised those who went to politics to enrich themselves.

hili as a *lingua franca* are usually cited as the base of the country's political stability.¹⁶ Tanzania is ruled by the same political party since independence – CCM (Swahili: *Chama cha Mapinduzi*, Party of the Revolution), which was created by the merger of Julius Nyerere's Tanganyika African National Union (TANU) and Afro-Shirazi Party from the Zanzibar. TANU/CCM has been ruling mainland Tanzania (previously Tanganyika) since 1962, what makes it the longest ruling party in Sub-Saharan Africa. The stable political landscape in Tanzania was achieved through the development of power-sharing mechanism, which accommodated demands of various groups.¹⁷ On the other hand, CCM long standing in ruling over the country is often portrayed as the reason behind the ever growing neopatrimonial network and multiple corruption scandals the country has experienced since the 1990s.¹⁸

CCM and the Tanzanian political elite experienced three transitions which shaped political landscape of the country. It might be argued that right now the fourth fundamental change is taking place due to the JPM activities. The first change took place in 1967, when the Arusha Declaration was adopted and Tanzania started to put into practice the ideology of African Socialism – *ujamaa*. After economic decline of the 1980s, the country completely reversed its macroeconomic orientation and adopted structural adjustment programmes. The third transition was correlated with the second one, and took place in 1992, when political pluralism was introduced due to the pressure from the international financial institutions. During this period the political elite dropped the Nyerere's notion of not combining political and business activities and the President's Mwinyi years in power (1985-95) are usually associated with the origins of grand corruption scandals, and the country's dependence on international donors.¹⁹ Additionally, despite formal introduction of political pluralism, certain negative features of one-party political culture remained in Tanzanian political regime and even became more evident in the competitive political environment. First of all, politics is perceived as a zero sum game. Secondly, "erosion of professional ethic" might be observed as well as a spread of corruption. Thirdly, the need of competition for power and simultaneous existence in the inclusive neopatrimonial network, created the culture of not criticising or even informing the "bosses" about the problems reported by citizens. This, in turn, created the intersubjective structure of "opportunistic loyalty"²⁰ in which the public

¹⁶ Interview with HE Philip Marmo, Republic of Tanzania Ambassador to Germany, Embassy of the United Republic of Tanzania, Berlin, 27 July 2016.

¹⁷ N.M. Ezrow, E. Frantz, *Failed States and Institutional Decay: Understanding Instability and Poverty in the Developing World*, Bloomsbury, New York-London 2013, p. 247.

¹⁸ Interview with Victor P. Kimesera, Chadema National Executive Secretary, Chadema Main Office, Dar es Salaam, 26 September 2016; H.S. Gray, 'The Political Economy of Grand Corruption in Tanzania', *African Affairs*, Vol. 114, Issue 456, 2015, p. 382-40.

¹⁹ B. Cooksey, 'Trends in Corruption During the Mkapa Era – Who Wants to know?', in K. Havnevik, A.C. Isinika, M.N. Nyota (eds.), *Tanzania in Transition: From Nyerere to Mkapa*, Dar es Salaam 2010, p. 183.

²⁰ S.S. Mushi, "The Structure and Culture of Politics Inherited from Tanzania's One Party Rule", *Reflections on the Transition to Democracy in Tanzania*, Redet Publication No. 1, Dar es Salaam 2010, p. 19-20.

administration operates. These four features of Tanzanian administration presented above are crucial for understanding the dysfunctional character of the government's relationship with mining corporations (presented in the subsequent section).

Arguable, the fourth transformation is taking place under the current president who adopted the vision of developmental state and aims at accumulating the capital not in the hands of politically connected individuals but in the government's coffer. President Magufuli described his efforts to rebuilt CCM as "*CCM Mpya*" (Swahili: "the new CMM").²¹ During the field study many respondents were not sure whether President Magufuli will be successful in introducing changes to the CCM because he, in fact, declared a war against the vast patronage system that catapulted him to the top political office in the country. Nevertheless, the 2015 elections were the closest in the Tanzanian history and despite relatively stable support base in the rural areas, the ruling party was rapidly losing popularity in the urban centres.

The CCM spokesmen in Dar es Salaam assured us that the Party has over 8 million active members "who are united in the support for the president" and it is the only mass party in Tanzania; although the data obtained in the CCM headquarters rises some doubts, CCM is definitely the best organised political party in Tanzania and the only one with offices and structures in the entire country.

The high costs of reaching voters in rural areas with any alternative programme to the CCM's, is often cited as one of the reasons why CCM holds the omnipotent position in the Tanzanian politics.²² Additionally, as noted by Bruce Heilman, CCM political elite is "diversified in terms of geography, religion and ethnicity"²³ and despite a visible North-South division, politics in Tanzania is not fought along the tribal lines (although JPM was accused by the National Muslim Council of Tanzania to allocate key positions in public administration mostly to his own tribe's members).

On the other hand, however, as it was argued above, politicians understand politics predominantly as a way of enriching themselves.²⁴ This claim was proved when immediately after the elections CCM experienced a wave of returns of its former members who had joined the opposition parties (mainly CHADEMA) believing that the ruling party will be removed from power. In other words, the political elite is rent-orientated and simultaneously there is a strong belief that if you are outside of the CCM you are outside of the country political system.

²¹ In social media, the hashtag, #WhatWouldMagufuliDo became very popular and despite its mocking character, the President's determination to save the public funds was emphasized there.

²² M. O'Gorman, "Why the CCM won't lose: the roots of single-party dominance in Tanzania", *Journal of Contemporary African Studies*, vol. 30, no. 2 (2012), p. 320.

²³ Interview with Dr. Bruce Heilman, Department of Political Science and Public Administration, Dar es Salaam, 19 September 2016.

²⁴ Interview with Semakae Kimesera...

JPM VS. SYSTEM: IS THE SYSTEM NOT RESPONDING YET OR HAS JPM BECOME THE SYSTEM?

The analysis of president's Magufuli actions taken during the first three years in power indicates that his strategy of remaining in the office is based on three pillars. The first, and the most important one (from the strategic point of view), is retain control in the CCM. Secondly, the president strives to improve social services provided by the government in order to secure his victory in 2020 elections. This objective is correlated with the third pillar of his strategy – concentration of assets in the hands of the central government and state-led industrialisation. This is where the conflict between the government and the mining corporations may arise. The government has already started activities aimed at verifying whether mining corporations had paid all due taxes and is willing to increase its stake in the mining operations. These tax and legal issues are discussed in the next part of the article, while this part of the paper briefly presents the first two pillars of the JPM's strategy, which poses the context in which relations between the government and the mining corporations should be considered.

There is a saying in Tanzania, that if one wants to know who the actual Big Man is, one should look at the houses the potential candidate live in. In other words, the more lavish is the house, the stronger is the Big Man occupying it. This saying is more than appropriate allegory of the current Tanzanian party system. The newly refurbished, air-conditioned CCM headquarters are placed in the Dar es Salam centre. It welcomes everyone with a huge wooden – Zanzibar's Stone Town like – doors whilst its interior overwhelms any person who dares to step inside. The headquarters of the major opposition party CHADEMA are located in a small barrack-like house at the dusty outskirts of Dar es Salaam.

The performative dimension of politics was always important for TANU/CCM. Rhetorically, the Party builds its political capital on bringing the independence to Tanganyika and maintaining peace in the country. Additionally, before Magufuli era, CCM was very active in the area of people's mobilisation (president Magufuli scrapped Independence Day and Union Day celebrations).²⁵ There were many "national days" in Tanzanian calendar, when the party organised rallies to manifest the CCM unity alongside the national unity.²⁶ As a result, the state and the CCM were hardly separa-

²⁵ 'Tanzania's Magufuli scraps independence day celebration', *BBC News*, at <<https://www.bbc.com/news/world-africa-34909111>>, at 7 September 2018. On the other hand, President Magufuli did not forget about the importance of the performative politics. He is very active in terms of public appearances and wherever he is showing up he always brings money to satisfy some of the local needs.

²⁶ The 'national days' in Tanzania included: Independence Day (Uhuru Day), SabaSaba (anniversary of the founding of the TANU party), CCM Day, Labour Day, Peasant's Day, Zanzibar Revolution Day, Union Day, Women's Day and Heroes Day. During the official celebrations the line between the CCM and the state were often blurred; P.B. Mihyo, "Chama Cha Mapinduzi (CCM): A Revolutionary Party in Transition, Tanzania", in M.A.M. Salih (ed.), *African Political Parties. Evolution, Institutionalisation and Governance*, London 2003, p. 89.

ble. These ritualised ceremonies served as a communication belt between the party and the society. The CCM position was additionally strengthened by the party involvement in the struggle against apartheid regimes in Southern Africa. It all created a very blurred line between the state and the party (also in terms of state and party finances) and provided a basis for multiple corruption scandals in Tanzanian politics.²⁷

All JPM predecessors paid lip service to the struggle against patronage and corruption but Magufuli declared war against unnecessary spending. His ban on foreign travels alone brought savings of \$429.5 million during the first year of his presidency.²⁸ Such savings are very important for building the right image of the president in the society and, in the long term, secures JPM bid for the second term.

Many political scientists at the University of Dar es Salaam confirmed that they did not really know how much support president Magufuli had in the CCM. He was not the party's first choice as the presidential candidate but the other two candidates were compromised by corruption scandals. He did not lead any of the CCM fractions. Additionally, among interviewed academics and civil society representatives perceived Tanzanian politics as a zero sum game; the political elite is rent-seeking and the president Magufuli is trying to change it. The lack of internal divisions in CCM during the first three years of his presidency, despite the fact that JPM forced some leading party members to resign, is proving that he is controlling the Party.

Tanzania has a long tradition of central planning and the government is attempting to change the way in which the funds are circulating in the economy. The President is determined to put the government in the centre of Tanzania's development strategy which, as described in the most recent National Five Year Development Plan, is focused on the government led industrialisation.²⁹ This however, comes with the political costs, because it inevitably leads to the damage of interests of those who benefited from the blurred boundaries between business and politics. However, there is also an established practice of keeping any internal party debate behind closed doors, which leads to the question if JPM really "is a president for change?".³⁰

During our stay in Tanzania and multiple interviews in public offices we experienced a phenomenon which can be called the "culture of secrecy". Public officials shared their insights and answered all questions but simultaneously they strongly suggested that the information they provided (even when speaking about general and insensitive issues) should be perceived as sensitive information (thus confidential). This situation might be at least partially explained by the President's actions taken against

²⁷ H.S. Gray, "The Political Economy...", pp. 382-403.

²⁸ A. Versi, E. Kabendera..., p. 19.

²⁹ "National Five Year Development Plan 2016/17-2020/21", *Ministry of Finance and Planning*, at <http://www.mof.go.tz/mofdocs/msemaji/Five%202016_17_2020_21.pdf>, 15 September 2018.

³⁰ A. Anyimadu, "Politics and Development in Tanzania Shifting the Status Quo", 18 March 2016, *Chatham House*, p. 7-8, at <<https://www.chathamhouse.org/sites/default/files/publications/2016-03-politics-development-tanzania-anyimadu.pdf>>, 3 September 2018.

“ineffective” public servants. President Magufuli, after taking power dismissed the highest state officials and very carefully selected candidates for ministers.³¹

The second aspect of Magufuli’s political strategy is related to redistribution of national income and improvement in provision of basic public services. It has to be pointed out that during the last three years there was a visible increase in the investment in infrastructure. Among the president’s flagship projects the most important ones are: the restoration of the national airline – Air Tanzania (with the purchase of the two new aircrafts) and the construction of the 300 km long Standard Gauge Railway (SGR) connecting Dar es Salaam and Morogoro. The SGR project is to be fully financed by the Tanzanian government (as part of its efforts to reduce dependency on foreign aid).³² Additionally, many water-related projects have been commenced all over the country. However, probably the most socially significant improvement was achieved by the abolition of school fees. Having said that, the quality of primary and secondary education remains a challenge.

Nevertheless, president Magufuli can claim that thanks to the austerity policy his administration was able to transfer sufficient funds to the socially needed programmes and, at least in the government’s rhetoric, the future of the pro-social programmes depend on the collection of taxes from international mining corporations.

THE DYSFUNCTIONAL MINING SECTOR IN TANZANIA

Although there is no consensus regarding the most effective path to achieve economic and social development, improving well-being of the citizens has always been considered as one of the top priorities for every country. As mentioned in the previous section, over the years, Tanzania has pursued different development paths: from liberal open-economy, to African socialism (or *ujamaa*). Unfortunately, neither of the economic paradigms employed have delivered promised successes.

At independence in 1961, Tanzania’s economy inherited a typical colonial structure: with dominant subsistence agriculture as well as basic manufacturing and processing for exporting goods. The country’s infrastructure, location of cities and main trade hubs were all geared towards the colonial economy.³³ In other words, despite political independence, Tanzania was still highly dependent on its former metropolis whilst the colonial heritage restrained any structural changes.

Initially, Nyerere’s idea for building a functional Tanzanian economy was through the means of the foreign capital. When opening the first £5 million refinery, which was built by ENI, an Italian oil company, he acknowledged capital limitation faced by Tanzania stating that: *none of this £5 million has to be found by the Government of Tanzania.*

³¹ His cabinet has only 22 ministers and 20 deputies – 11 fewer than the cabinet of his predecessor.

³² Under President Kikwete Tanzania was the second biggest recipient of foreign aid in Sub-Saharan Africa.

³³ J. Rweyemamu, *Underdevelopment and Industrialization in Tanzania*, New York 1973, p. 111.

*This oil refinery is being financed, constructed, and will be run by a private Company: it is a private investment such as we have called for in the national Five Year Development Plan... On this basis of mutual benefit we in the United Republic of Tanzania welcome private investment in this, and in other fields.*³⁴

However, after a thorough review of the First Development Plan, Nyerere concluded that foreign capital was not the solution but actually one of the problems contributing to the Tanzanian economic dysfunctionality and exclusion from the global trade. Therefore, according to him, in order to break the circle of dependency, Tanzania should mobilise internal resources and pursue a more inward-oriented development policy. *The Arusha Declaration* – a manifest of the African non-revolutionary socialism announced by Nyerere in 1967 – shifted the main focus on the non-exploitative development in the spirit of “ever increasing self-reliance”³⁵ to create an equal, inclusive and functional society and state.

Toward this end, a program of massive nationalisation took off. By the end of 1967, all banks, large industrial enterprises, agricultural processing companies, as well as trade activities and majority of the dominant sisal industry were nationalised.³⁶ The ultimate objective of the direct state control over the majority of the assets and economic activities was to limit the outflow of capital and to make it available for internal development.

After initial improvements in the economic performance (e.g. the fixed capital formation increased from 14% of the GDP in 1964 to 26% in 1970)³⁷ the costs and inefficiencies of the *ujamaa* experiment started to dwarf its benefits. Nyerere’s legitimate intentions and strategy for non-exploitative development turned out to be more utopian than practical. Growing over-bureaucratisation and centralisation created opportunities for increased corruption, inefficiencies and resource squandering.³⁸

Another significant theme of *ujamaa* which was orientated at creating a more equal and functional socio-economic environment in Tanzania was the development of peasant agriculture economy.³⁹ However, similarly to the nationalisation efforts, after initial enthusiasm and some success, the villagisation programme quickly run into difficulties. First of all, local peasants, suspicious of the regime’s motives and in fear of land nationalisation, refused to cooperate. The lack of sufficient ideological support and identification with the scheme; was later dubbed as one of the reasons behind its failures. Secondly, the use of force and coercion negatively affected the effective operation and functions of *ujamaa* villages. Finally, the free goods and services provided by the regime to support a smooth and accelerated kick off of the initiative

³⁴ Ibid., p. 115.

³⁵ J. Nyerere, *Freedom and Socialism*, Oxford University Press, Dar es Salaam–New York 1968, p. 319.

³⁶ B. Van Arkade, ‘Planning in Tanzania’, in L. Cliff, J. Saul (eds.), *Socialism in Tanzania*, vol. 2, Dar es Salaam 1973, p. 37.

³⁷ The United Republic of Tanzania, *Economic Survey 1970-71*, Dar es Salaam 1970, p. 6.

³⁸ D. Bolton, *Nationalization: A Road to Socialism?: The Case of Tanzania*, London 1985, p. 156.

³⁹ Nyerere concluded that in order to succeed at pursuing the self-reliance path, Tanzania needed to mobilise internal resources. As the Tanzanian economy was dominated by agriculture, it was a natural choice to prioritise agriculture development.

were perceived by peasants more as substitutes than complimentary factors for the labour resources. Eventually, due to poor performance, high public discontents, and growing dysfunctionality of the villagisation scheme, by the end 1975 the programme was abandoned.⁴⁰

As the failure of the entire African socialist experiment became more apparent, having no other choice but to capitulate, Nyerere stepped down. And Tanzania, with crippling economic conditions had no other choice but to ask international financial institutions for assistance.

The IMF's solution to the Tanzanian dysfunctional economy was delivered – as in many other developing countries in the 1990s – through the means of the structural adjustments programme. With it came an era of liberalisation of the Tanzanian economy including privatisation of national assets, devaluation of the national currency, and cuts in government's expenditures.

Unfortunately, as in many other developing countries, the agenda of the structural development programme turned out to be dysfunctional for the local industries (but quite functional for the rest of the world). This dysfunctional relationship with the global economy was perhaps most visible in the Tanzania's gold sector.

The increased economic openness and inflows of the foreign capital in the early 1990s transformed the gold sector tremendously. Small-scale and artisanal mining activities were replaced by a full-scale gold extraction industry with multinational corporation opening mining sites across the country. As result, the gold production increased from around 200 kg in 1992 to over 53 000 kg in 2017.⁴¹ Despite the tremendous value of exported gold over the last three decades, the gold industry contributed very little to the economic and social development of the country.

To attract foreign investors to the gold sector, Tanzania offered a generous incentive packages: from duty exemptions on imported machines, to exemptions from capital gain and value added taxes, to the right to employ an unlimited number of expats. Unfortunately, the direct effects stemming from tax exemptions and preferential treatment for foreign investors in the mining sector were just the tip of the dysfunctional iceberg in the gold sector. Tanzanian poorly designed legal framework, and more importantly, dysfunctional institutions responsible for implementing the laws and supervising the sector had little chance to stop the foreign gold companies from overexploiting the country. The 1990s and the 2000s were a true golden era for gold corporations operating in Tanzania.

The most prominent techniques employed by gold corporations to exploit the system and maximise profits included: over-declaration of losses, thin capitalisation ratios, transfer prices and under-reporting of production. For example, according to an audit conducted by Alex Stewart Assayers (ASA) in 2003, four major gold companies

⁴⁰ B. Ibhawoh, J.I. Dibua, "Deconstructing Ujamaa: The Legacy of Julius Nyerere in the Quest for Social and Economic Development in Africa", *African Journal of Political Science*, vol 8, no. 1 (2003), p. 67.

⁴¹ Tanzania Extractive Industry Transparency Initiative, "Final Report for the Period July 1 to June 30, 2016", Dar es Salaam 2018, at <<http://www.teiti.or.tz/wp-content/uploads/2018/04/TANZANIA-EITI-2015-2016-FINAL-REPORT.pdf>>, 1 September 2018.

between 1999 and 2003 overstated their losses by a combined amount of \$0.5 billion.⁴² In 2015, a re-assessment of the financial reports conducted by the Tanzania Revenue Authority of seven backlog cases (dating back to 2007-2010) resulted in reduction of declared tax losses by another \$0.5 billion.⁴³ To put it into perspective, the total government revenue from mining activities in 2010 was \$3.3 billion.⁴⁴

Another profit-maximisation technique used by gold corporations was thin capitalisation. Thin capitalisation is the excessive use of debt finance compared to equity. For example, if an entity were to have debt to equity (capitalisation) ratio 3:1 every \$3 of debt is funded by \$1 of equity. International gold companies have many subsidiaries and connected affiliates all around the world (including tax-heavens). To take advantage of the poorly regulated sector they used subsidiaries based in low-tax countries (e.g. Luxemburg) to offer loans to subsidiaries in high-tax countries (e.g. Tanzania) where the interest costs are tax-deductible. According to one parliamentarian who was a member of the special mining review committee, only in 2008 Tanzania lost a total of \$830 million in corporate income tax due the thin capitalisation used by three gold companies: Geita Gold Mine Ltd., Acacia Mining and Resolute Tanzania. Their capitalisation ratios were 12,597,000:1, 791:1, and 5,088:1 respectively (sic!).⁴⁵

As it became clear that the gold sector in Tanzania operates in a highly dysfunctional manner, the government – pressed by growing public discontent – decided to act by introducing a series of laws revamping the sector. The objectives behind the new Mineral Policy 2009, the Mining Act 2010 and the Finance Act 2010 were to close most urgent loopholes and to improve the sector's contribution to the government revenues. Unfortunately, despite some improvements (e.g. taxpayers had to demonstrate that the loan had not been given by a connected company in order to qualify for interest deductibility) the sector remained largely dysfunctional. Most importantly, due to existing stabilisation clauses the mining contracts had not been re-negotiated and the mechanisms for collecting the resource rent when the gold prices were high had not been introduced neither.

After becoming the President, “the bulldozer”, frustrated by the dysfunctionality of the mining sector, took some strong-minded steps. Firstly, in 2016 he banned the export of unprocessed gold and copper concentrates for smelting outside the country. Secondly, he appointed two presidential commissions with tasks to scrutinise and review the extractive sector (during the presidential campaign JPM promised

⁴² M. Curtis, T. Lissu, *A Golden Opportunity? How Tanzania is Failing to Benefit from the Gold Mining*, Dar es Salaam 2008, at <<http://curtisresearch.org/wp-content/uploads/GoldenOpportunity2ndEd.pdf>>, 28 June 2018.

⁴³ Tanzania Revenue Authority, “Annual Report 2014-2015”, *TRA Headquarters*, at <<https://www.tra.go.tz/images/uploads/AnnualReport2014-2015.pdf>>, p. 33.

⁴⁴ Tanzania Extractive Industry Transparency Initiative, “Third Reconciliation Report for the year ended 30 June 2011”, Dar es Salaam 2013.

⁴⁵ A. Readhead, “Transfer Pricing in the Extractive Sector in Tanzania”, *Natural Resource Governance Institute*, March 2016.

to finally fix the gold sector). Results from the investigations provided a plethora of reasons for the President to take decisive and quick actions targeted at rectifying the industry.

In June 2017, as a result of the Presidential initiative, the Tanzanian Parliament introduced three pieces of legislation which were meant to flip the Tanzanian extractive sector upside down. The Written Laws (Miscellaneous Amendments) Act 2017 ("Amendments Act") provided the basis for amending several other gold sector related acts, whilst the Natural Wealth and Resources (Permanent Sovereignty) Act 2017 ("Sovereignty Act"), among other things, provides for the natural resources to be held in trust by the president on behalf of the citizens. It also sets the minimal government's free carried interests in the capital of mining companies at 16% (which can be further increased up to even 66% of total equity under certain conditions). The third act, namely the Natural Wealth and Resources (Revenue and Re-Negotiation of Unconscionable Terms) Act 2017 ("Contract Review Act"), among other provisions, provides the basis for re-negotiations of the terms of every existing (mining, oil or gas) agreement if they are deemed "unconscionable" by the criteria laid out in the act.⁴⁶

Despite the country's progress to make the mining industry more transparent and functional – as clearly envisioned by the new laws and the president Magufuli – none of the existing contracts have actually been disclosed to the public or re-negotiated so far. The sluggish implementation of the new laws begs the question whether the announced overhaul of the mining sector will actually happen. This becomes even more important as Tanzania moves forward to start production of yet another resource: the natural gas.

LOOKING INTO THE FUTURE: BUILDING A FUNCTIONAL GAS SECTOR IN TANZANIA

Beginning in 2010, Tanzania discovered offshore natural gas deposits. The most recent estimates suggest that there is at least 57 trillion cubic feet of natural gas available for extraction. The natural gas is yet another opportunity for the country to raise 12 million Tanzanians from poverty and accelerate the country's development by drastically transforming its economy and creating thousands of jobs in the value chain.

However, observable dysfunctionalities in the nascent gas sector seem to be as problematic as the ones identified in the gold sector. First of all, there is the human capital issue. The Tanzanian government and government-sponsored bodies lack sufficient officers with adequate skills to negotiate terms and conditions of the LNG terminal construction with gas majors as equals. Moreover, management of the scarce human resources is also questionable. For example, recent reconstruction of the gas sector management in Tanzania moved the most skilful and experienced experts from the Ministry of Energy and Minerals (MEM) to work in the Tanzanian Petroleum

⁴⁶ The Contract Review Act, Section 5(3).

Development Corporations (TPDC). Yet, the TPDC is supervised by and subordinated to newly appointed and inexperienced civil servants working at the MEM.⁴⁷

Secondly, Equinor (formerly Statoil), a Norwegian gas and oil major, is one of the most important conduits of knowledge for the Tanzanian administration. Equinor's experts provide cyclical training services and offer their expertise on technical, financial and administrative issues to the employees of the Tanzania Revenue Authority and other agencies responsible for supervision and control over the gas sector. The training activities offered to the Tanzanian government by Equinor are part of the Norway's broader policy to enhance capacity of the institutions responsible for the extractive sector management in the developing countries. The problem is, however, that in the case of Tanzania Equinor is not only training government employees to better scrutinise gas companies but also plays a leading role in the Tanzanian gas industry, negotiating terms and conditions of its commercial deal with the Tanzanian government.

Finally, the overwhelming asymmetry of information in the negotiation process between gas corporations and the Tanzanian government over a host country agreement is yet another factor to consider when analysing the future of Tanzania's gas industry – the gas majors have much more experience and knowledge than the Tanzanian government. Naturally, the government is hiring international consultants to assist its negotiating team. Nevertheless, the stalling process of setting the terms and conditions of the investment in the LNG terminal seems to favour gas companies.

CONCLUSIONS

As many other Sub-Saharan states, Tanzania has vast deposits of natural resources. Similarly to other African countries the dream of structural economic transformation and fast development fuelled by receipts from the resource rent has yet to come through.

Since independence, the Tanzanian political landscape was stable. Over the last three decades it was characterised by neopatrimonial practices, and dominant position of the CMM. Although the corruption should not be considered chronic, it does impede the pace of development and ability to introduce systemic changes. Since his inauguration in 2015, John Pombe Magufuli, has started to reconstruct neopatrimonial network and chose a path of revolutionary, rather than evolutionary change. Accused of authoritarian tendencies, he seems determined to change the party without changing the status quo on the political scene. He did not shy away from a difficult decision: sacking long-serving heads of departments and state-owned companies, investigating corruption and introducing prudence in public spending. Nevertheless, the dysfunctional patterns in the Tanzanian public sector governance are hard to break and highly affect the country's socio-economic conditions, including the extractive sector.

If we were to point out the most dysfunctional characteristic of the Tanzanian economy, it would be hard to name anything but the gold sector. Over the years, due to

⁴⁷ Interview with Mary S. Ngusaru, Human Resource Manager, Tanzania Petroleum Development Corporation, Dar es Salaam, Tanzania, 21 September 2016.

poorly designed legal framework and weak institutions, Tanzania seemed to benefit the least from the resource riches, whilst foreign companies benefited the most. Currently, the country is laying legal and structural grounds for the gas industry. And as much as it deserves credit for the efforts to enhance institutional capacity, trusting that profit-oriented foreign corporations (e.g. Equinor) will sacrifice some of their profits for the sake of well-being of the Tanzanians seems naïve (to say the least).

JPM initiated a regime change, trying to alter the face of the Tanzanian political landscape and reverse the dysfunctional patterns. The “revolution” in the extractive sector initiated by the President is unprecedented. Introduced changes in the legal framework are far reaching and seem to have the potential to reshape the Tanzania resource sector in a positive way. Nevertheless, the question what is going to happen after the initial momentum is lost remains open.

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Prof. Andrzej POLUS, Ph.D. – a professor at the Institute of International Studies, University of Wrocław, and the president of the Polish Centre for African Studies. His research work focuses on the political economy of hydrocarbons management and the current political situation in Sub-Saharan Africa. He participated – as principal investigator or co-investigator – in fourteen research projects devoted to development studies. He conducted field research in Botswana, Ghana, Namibia, South Africa, Tanzania, Uganda, and Zambia.

Wojciech J. TYCHOLIZ, M.A. – a research fellow at the Institute of International Studies, University of Wrocław, and a senior researcher at the Polish Centre for African Studies. His research focuses on political economy, natural-resource management, capital flows to Africa, and financial markets in sub-Saharan Africa. He has carried out field studies in Ghana, Morocco, Namibia, South Africa, Tanzania, and Uganda.