

CMI BRIEF 03
REPOA BRIEF NO. 3 OF 2019

BRIEF

FEBRUARY 2019

This REPOA/CMI
brief features
research on
Tanzania as a
future petro state



Photo by flickr user Andrew Moore (CC BY-SA 2.0)

Petroleum's potential impact on future state-society relations in Tanzania

AUTHORS

Kendra Dupuy

CMI

Lucas Katera

Repoa

Tanzanian citizens continue to have high expectations about the benefits that the country's emerging petroleum sector will provide them with, yet they possess low knowledge about the sector. Policy makers should take concrete steps to rectify this knowledge-expectation gap by providing updated information in accessible and easy-to-understand formats. Revenue transparency should be encouraged, and more research should be carried out to improve understanding of how the prospect of future petroleum revenues may shape citizen attitudes and behaviors.

Introduction

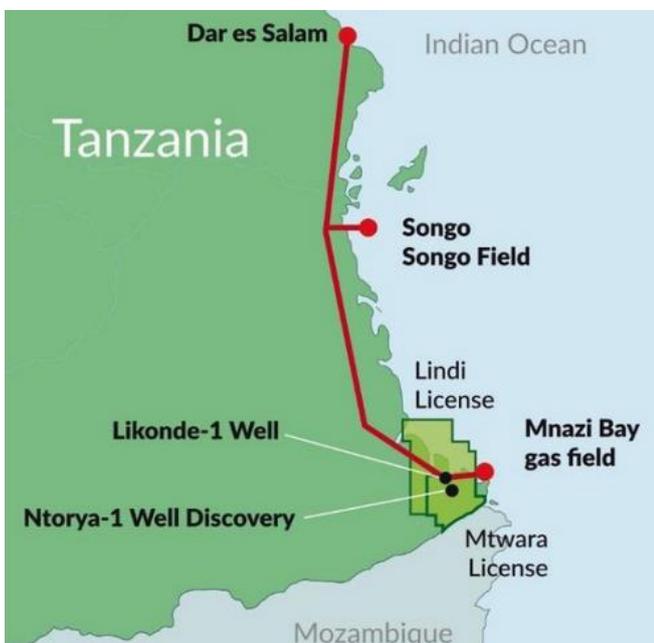
The discovery of large, off-shore natural gas deposits in Tanzania holds the potential for large future economic benefits for the country, including poverty alleviation. But with this promise comes possible consequences for the relationship between government (state) and citizens (society). Large-scale economic windfalls such as newfound oil, gas, or mineral wealth can shape citizen perceptions of government performance and trust in key public institutions. Given that realizing revenues from Tanzania's petroleum sector is still many years into the future, it is important to manage citizen expectations about petroleum's likely future benefits, both for the country as a whole and for individuals. Since 2016, the Tanzania as a Future Petro-State Programme has been monitoring citizen knowledge, expectations, and attitudes regarding the sector through household surveys. This brief presents the results from the latest round of the survey, conducted in spring 2018.

A survey of knowledge, expectations, and attitudes

In April 2018, we carried out a household survey of citizen knowledge about, and expectations of, Tanzania's petroleum sector. The survey was implemented in three gas-producing and benefiting areas of the country: Dar es Salaam, Lindi, and Mtwara. Lindi and Mtwara are the regions where offshore natural gas reserves have been discovered. Plans are in progress to build an onshore liquefied natural gas (LNG) processing plant in Lindi, from where liquefied gas would be exported to foreign markets, primarily in Asia. Dar es Salaam is the country's economic hub.

The survey we carried out in April 2018 repeated some questions asked in an earlier survey conducted in 2016 about what citizens know about the sector, and what benefits they hope and expect to receive from future petroleum production. Several new questions were added to the 2018 questionnaire. We first review the responses from the 2018 survey before comparing the 2018 results to the 2016 results in the concluding section.

A total of 1534 randomly selected adults in the three regions participated in the survey. The sample was equally split between the three regions, and between genders as well as rural and urban areas. Most of the respondents reported that they were literate, had completed primary school, and were married.



Low knowledge levels

On average, our survey respondents reported having low knowledge about the petroleum sector. Approximately one-half of the survey respondents claimed that they have seen or heard "a lot" about the sector, while the other half claimed to know only "some", "a little", or "almost nothing". This picture is the same across the three regions, with slightly more respondents claiming to know "a lot" in Dar es Salaam (51%) than in Lindi (45%). Responses were more varied to the question of how much petroleum revenue has been realized to date, with 53% of Lindi respondents, 83% of Mtwara respondents, and 60% of Dar es Salaam respondents stating they have no knowledge at all about revenue generation in the sector. This variation could be the result of differences between the regions in access to media, in education rates, in exposure to civil society advocacy campaigns, or to differences in government officials' information dissemination efforts.

Perhaps not surprisingly, most respondents also stated that they have no knowledge about the legislation the government has adopted to govern use of revenues generated by the sector, such as the 2015 *Oil and Gas Revenues Management Act*. As many as 84% of the entire sample claimed to have never heard of legislation governing gas revenues, with 92% of Lindi respondents, 82% of Mtwara respondents, and 80% of Dar es Salaam respondents claiming no knowledge of the sector's regulatory framework.

Radio was the most frequently reported main source of information about the country's petroleum sector, as reported by 45% of respondents overall. There is variation among the regions in the frequency with which other information sources are used. Television is an important source of information for 29% of Dar es Salaam respondents, while 42% of Mtwara respondents rely on family, neighbors, and friends for information about the sector. Just 7% of all respondents claimed that they use the internet to acquire information on the petroleum sector. Other household surveys show similar trends in Tanzania. Round 6 of the Afrobarometer survey, rolled out in 2016, reports that 78% of Tanzania respondents get news from radio either a few times a week or every day, versus 34% from television, 24% from newspapers, and 9% from the internet.

High expectations

Despite having generally low knowledge about the petroleum sector, Tanzanian citizens have high expectations that they, and the country, will benefit highly from the sector in the future. Nearly three-quarters (75%) of all our survey respondents felt that the country as a whole will reap very or somewhat large benefits. They named two specific types of benefits they expect to accrue to the country. First, they expect that petroleum revenues will contribute to a 50% increase in the government's budget. In reality, conservative financial projections predict that gas revenues would increase government revenue by just 7 to 11% (Scurfield and Mihalyi 2017). Second, approximately one-quarter (25%) of the respondents viewed provision of more and cheaper electricity to citizens as the biggest benefit that the sector will provide the country. This was higher than the number who believed that the biggest benefit will be employment in the sector (16% of all respondents) and direct handouts (14% of all respondents).

Respondents also felt that they were likely to personally benefit economically from the sector, though to a lesser degree than they believe that the country as a whole would benefit. 36% of all respondents felt petroleum's benefits for themselves and their families will be very big, while 31% believed they will be somewhat big. More Dar es Salaam respondents (42%)

expected the personal benefits would be very big, as compared to 34% in Lindi and 33% in Mtwara. Most respondents expected that their children or family members will eventually get jobs in the sector (57% and 52% of all respondents, respectively), with some variation across the regions. 38% of Mtwara-based respondents expect family members and 47% expect their children to get employment in the sector. In Lindi, 61% of the respondents had high hopes for family member employment and 63% had hopes for their children's employment. Only 34% of all the respondents expected that they themselves will get a job in the sector, with 39% of Lindi respondents, 25% of Mtwara respondents, and 41% of Dar es Salaam respondents expressing optimism about sector employment. Around 50% of all the respondents expected their business to supply items to the petroleum sector.

Willingness to pay future taxes

A worrisome finding in our survey is that citizens' expectations about future revenues from the petroleum sector could reduce their willingness to pay taxes. We asked respondents how much tax they would be willing to pay in the future based on their belief about what the future financial benefits from natural gas will be for the country. On average, respondents stated that they would only be willing to pay half the amount of tax that they pay today. This finding holds across all three regions. Furthermore, there is a weak and negative correlation ($p = -0.24$) between expected future benefits to one's family and willingness to pay taxes: in other words, respondents who expect themselves and their families to benefit more from the petroleum sector want to pay less in taxes once the benefits of the sector are realized.

What could explain this reduced willingness of citizens to pay taxes in the future? "Rentier state theory" argues that external sources of government revenue, such as from natural resources, relieve the government of the need to extract income in the form of taxes from citizens. Governments benefiting from high levels of natural resource revenues are thus likely to stop levying taxes on the population, and as a result, they become less responsive and accountable to citizens (Ross 2015). As petroleum revenues replace tax revenues, government can instead focus on distributing resource wealth (rather than collecting and redistributing tax income) to maintain popular support. But the relationship could just as well go the other way, with citizens feeling less responsibility for paying taxes when government has access to a large external revenue source. This obviously does not hold across all countries, given that wealthy, petroleum-rich states like Norway also have high tax rates and high tax compliance. Whether and under what conditions petroleum wealth results in reduced tax compliance is a research question that requires more investigation. However, existing research does indicate that increased government revenue from high value natural resources can result in anti-government behaviors like protests (Arce and Miller 2016).

An alternative explanation could be citizens' skepticism about how future petroleum revenues will be spent. The majority of the survey respondents felt that local and national political elites will benefit greatly from the petroleum sector, and that they will benefit more than ordinary citizens. On average, 80% of all respondents felt that national political elites (such as national government representatives and Members of Parliament) as well as local political leaders will get "very big" or "somewhat big" benefits from the sector. This is as compared to just 65% of the respondents across the sample feeling they and their family will get very big" or "somewhat big" benefits. Interestingly, 88% of all respondents

stated that all contracts between government and petroleum companies should be made open to the public. This could reflect citizen fear that petroleum revenues give politicians an incentive to engage in rent-seeking behavior that benefits them personally but not the country, and that transparency is a way to mitigate this risk.

Attitudes towards actors in the sector

Recently, relations between the Government of Tanzania and private companies operating in the extractive industries (especially in the mining sector) have taken a negative turn, with government perceiving that the companies have exploited the country's natural resources for a long time without ensuring that the country sufficiently benefited. The government's skeptical view of private companies is echoed in the new legislation for the petroleum sector, which empowers the government with a high level of control over the sector (Lee and Dupuy 2017). Yet, despite the Government's behavior towards foreign mining companies, our survey respondents had a fairly positive view of companies operating in the petroleum sector. On average, 37% of all respondents felt that foreign companies should be heavily involved in the sector, and 40% felt they should be involved only "a little".

Respondents also had a positive view of both the Government and foreign companies when asked about which of these does a better job of addressing development concerns in their community. Across the full sample, 22% felt foreign companies do better, 39% felt government does better, and 36% felt both companies and the Government do a good job in addressing development concerns. But these responses varied considerably across the three surveyed regions. 31% of Lindi respondents, 11% of Mtwara respondents, and 24% of Dar es Salaam respondents felt that foreign companies perform better, while 29% of Lindi respondents, 52% of Mtwara respondents, and 35% of Dar es Salaam respondents felt government does a better job delivering development benefits to them.

In summary, both Mtwara and Dar es Salaam residents are confident in government's ability deliver development benefits, while Lindi residents have similar, low levels of confidence in both foreign companies and government to do so. This discrepancy could be attributed to the fact that several major investments that were planned to occur in Lindi (such as the construction of a cement factory and a fertilizer plant) were moved to Mtwara. Moreover, in a survey conducted by Must and Rustad (2016), 71% of Lindi residents reported feeling that their region was economically more marginalized than other regions of the country, whereas only 46% of Mtwara residents reported similar perceptions – perhaps explaining Lindi residents' skepticism about government's responsiveness to their needs.

Key changes from 2016 to 2018

In our survey, we repeated some questions asked in an earlier household survey that was implemented in 2016 and was also run by the Tanzania as a Future Petro-State Programme in the Lindi, Mtwara, and Dar es Salaam regions. The two surveys did not engage the same respondents, and thus we cannot measure changes in individual respondents' views. However, because the surveys relied on a random selection of respondents in the three regions, we can measure aggregate changes in citizen knowledge and expectations about the petroleum sector across the three regions. We examined regional changes in responses to the repeated questions and summarize the changes below in Table 1. One of the main changes to note is that citizens' currently have reduced expectations about future benefits from the petroleum sector, but this does not necessarily seem to be

the result of any increases in knowledge about the sector, as seen in Table 1. In combination with the responses on views about foreign companies' versus government performance in delivering development benefits to the three regions, this suggests that citizens may have lost some confidence in government's ability to deliver the benefits they expect from the industry.

Conclusions and recommendations

The survey results suggest three concrete recommendations for policy action and future research. First, there is a clear gap between knowledge and expectations about the petroleum sector. Currently, citizens continue to have quite high expectations of future benefits from the sector, but low knowledge about the sector's current state and potential to fulfill these expectations. Management of citizen expectations via information provision about such a large national resource is important to ensure continued social and political stability.

Policy makers should thus take concrete steps to rectify this knowledge-expectation gap by providing updated information in accessible and easy-to-understand formats. In particular, our findings suggest that information about the sector should be disseminated using radio. Second, policy makers should support measures that ensure revenue transparency in the petroleum sector, in order to demonstrate good management of the sector by government. Tanzania has taken steps in this direction through membership in the Extractive Industries Transparency Initiative, but more could be done on this front as, for instance, the legislation governing the petroleum sector does not automatically require contract transparency. Finally, more research should be carried out on how the prospect of future petroleum revenues may shape citizen attitudes and behaviors, so as to ensure that the sector's further development does not result in reduced citizen trust in, and compliance with, government.

Question	2016 results	2018 results	Change
<i>Knowledge</i>			
How much do you know about gas being found in Tanzania?	40% report knowing "a lot"	48% report knowing "a lot"	More knowledge reported
How much do you know about legislation governing gas revenues in Tanzania?	80% report knowing "almost nothing"	84% report knowing "almost nothing"	Less knowledge reported
How much revenue has been realized so far from petroleum?	77% stated they "don't know"	65% stated they "don't know"	More knowledge reported
<i>Expectations and attitudes</i>			
Expectations about benefits for Tanzania as a country	67% felt they would be "very big"	58% felt they would be "very big"	Lower expectations
Expectations about benefits for national government representative	61% felt they would be "very big"	56% felt they would be "very big"	Lower expectations
Expectations about benefits for local government representative	56% felt they would be "very big"	50% felt they would be "very big"	Lower expectations
To what extent should foreign companies be involved in the petroleum sector	27% said not at all	22% said not at all	More positive attitudes towards companies
Do foreign petroleum companies or government do a better job of addressing concerns related to development in your community?	16% said companies would do better, and 47% government	22% said companies would do better, and 39% government	More positive attitudes towards companies

References

- Arce, M., and R.E. Miller. (2016). "Mineral Wealth and Protest in Sub-Saharan Africa". *African Studies Review*, 59(3): 83-105.
- Lee, B., and K. Dupuy. (2017). "Understanding the Lie of the Land: Mapping Petro-Governance Institutions in Tanzania". *Journal of Energy & Natural Resource Law*, 36(1): 85-101.
- Must, Elise, and Siri Aas Rustad. (2016). "Perceptions of Justice and Violent Mobilization: Explaining Petroleum Related Riots in Southern Tanzania". Peace Research Institute Oslo: Conflict Trends policy brief 06.
- Ross, M. (2015). "What Have We Learned About the Resource Curse?" *The Annual Review of Political Science*, 18: 239-259.
- Scurfield, Thomas, and David Mihalyi. (2017). "Uncertain Potential: Managing Tanzania's Gas Revenues". Dar es Salaam: Natural Resource Governance Institute, Briefing, September 2017.

This Brief is an output from Tanzania as a future petrostate: Prospects and challenges, a five-year (2014–2019) institutional collaborative programme for research, capacity building, and policy dialogue. It is jointly implemented by REPOA and CMI, in collaboration with the National Bureau of Statistics. The programme is funded by the Norwegian Embassy, Dar es Salaam. The author would like to thank Kendra Dupuy, Odd-Helge Fjeldstad, Ingvild Hestad and Jan Isaksen for comments and insights. Views and conclusions expressed within this brief are those of the author.

