

**PROJECT INFORMATION DOCUMENT (PID)
IDENTIFICATION/CONCEPT STAGE**

Report No.: PIDC98310

Project Name	Tanzania: EI Accountability and Governance Enhancement Project
Region	AFRICA
Country	Tanzania
Financing Instrument	IPF
Project ID	P162493
Borrower Name	Ministry of Energy and Minerals
Implementing Agency	TEITI Secretariat
Environmental Category	C - Not Required
Date PID Prepared	28-Dec-2017
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Initiation Note Review Decision	The review did authorize the preparation to continue

I. Introduction and Context

Country Context

Tanzania experienced strong macroeconomic performance in the past two decades. The mining sector accounted for a significant part of the GDP growth during this period. Due in large part to the reforms supported by the World Bank since the 1980s, Tanzania has experienced strong, relatively steady FDI flows in mining, which in turn fueled a robust sector and macro-economic performance, with GDP growth anchored at an average of 7 percent per annum over the last two decades. Gold became the largest export of the country and has only recently been eclipsed by tourism because of the drop in the export value due to the dramatic fall of the prices of the metal. In addition, the country enjoys geographical comparative advantage, a vibrant tourism sector, and a reputation for socio-political stability.

As part of improving governance of extractive industries, the World Bank has been supporting Tanzania's institutional and policy reforms in the mining sector over the past four decades. During the mid-1980s, the support focused on building the geological infrastructure required to identify and assess the mineral resources of the country. This was followed by a program in the early 1990s to promote the sector and attract mining Foreign Direct Investment (FDI) through policy and regulatory reforms. In addition, the World Bank supported Tanzania to join the Extractive Industries Transparency Initiative (EITI) on February 2009 and funded implementation of the initiative through two successive EITI Multi-donor Trust Funds (MDTF). Besides the MDTF, a number of donors are supporting governance initiatives, including EITI, in the extractive sector. The donor support is coordinated through the development partner's Extractive Working Group currently headed by Canada and comprising the DFID (United Kingdom), DFAT (Australia), European Union, DANIDA (Denmark's development cooperation), NORAD (Norwegian Agency for Development Cooperation), and GIZ (German Development Agency).

Since joining the EITI, Tanzania has produced seven reports. These reports indicate that from July 1, 2008 to June 30, 2015, the government collected \$2.6 billion cumulatively from the extractive companies. For the period July 1, 2014 to June 30, 2015, the government received TZS 311.3 billion (\$163.8 million) in revenue from the sector. However, in recent years, implementation performance has slowed down. Tanzania EITI (TEITI) missed the deadline for publication of the 2012/13 EITI Report which was due by June 30 2015, citing procurement problems during the selection of the Reconciler. This resulted in a temporary suspension, which occurred as Tanzania was pioneering policy and regulatory initiatives to ensure the sustainability of the EITI process. This effort culminated with the enactment of a special law on the implementation of EITI. The law, known as "The Tanzania Extractive Industries (Transparency and Accountability) Bill of 2015" was tabled at the National Assembly in Dodoma on 16th June 2015, enacted by Parliament on 6th of July, 2015, and signed by the President on August 4th, 2015. Similarly, the 2014/15 EITI report was only published in June 2017.

The new law institutionalizes TEITI as an independent entity with clear mandate to oversee transparency and accountability in the extractive industry. The President also signed two other Acts related to extractives (Petroleum Act and Oil and Gas Revenue Management Acts). The enactment of these laws is part of Government's efforts to enhance governance of natural resources so that exploitation of these resources can generate needed revenue for economic growth and help to reduce poverty. In June 2017, the Government of Tanzania went a step further to enact three laws in a bid to increase the revenue and other benefits of mining for the country. The 'Permanent Sovereignty' Act No. 5 aims to increase Tanzania's control of mineral resources. The 'Review and Re-Negotiation of Unconscionable Terms' Act No. 6 empowers parliament to renegotiate 'unconscionable terms' in contracts, and the 'Written Laws' Act No. 7 amends sections of the Mining Act of 2010.

The Government has also undertaken reforms to improve transparency in extractives as it relates to service delivery and the use of public resources. In 2014/15 - 2015/16, the Open Government Partnership (OGP) set targets to expand scope to include land transparency and extractive industries transparency. Other commitments include legislating freedom of information, to publish audit committee reports, tax exemptions, and extractive industries contracts. Another initiative related to extractive industries governance which the Government subscribes to is the implementation of Natural Resource Charter (NRC). In 2013-14, Tanzania NRC commissioned a benchmarking study to establish extractive industries administrative gaps and to develop strategy and action plan for the Government. The draft report was completed earlier in 2015 and submitted to the Inter-Ministerial Technical Committee for review. NRCI and Uongozi Institute are currently finalizing the amendments and the report is expected to be launched possibly by October 2015. Both initiatives help to strengthen the implementation of EITI in the country.

Sectoral and Institutional Context

The Tanzanian mining sector comprises two subsectors. The first is the Large Scale Mining (LSM) subsector associated with large FDI, infrastructure development, technology transfer, high productivity and high export earnings. LSM tends to be highly capital intensive, and in the absence of strong backward, forward, and fiscal linkages with the rest of the economy, its contribution to job creation is very limited. The second sub-sector, the Artisanal and Small-Scale Mining (ASM), often involves local miners using basic methods to extract near-surface deposits.

The mining sector has been growing at an average rate of 10.2 percent since 2000, accounting for 49.4% of the country's total FDI inflows in 2012. The mining boom started with massive inflows of FDI in the mid-1990s, which were made possible in part by the reforms described above. Notable

developments over the past decade include the commissioning of seven large-scale gold mines (Bulyanhulu, Buzwagi, Geita, Golden Pride, New Luika, North Mara and Tulawaka). During this period, more than 15 mineral prospects of gold, nickel, and uranium have also been developed to various stages of exploration. The mining boom resulted in an increase of the country's annual large gold production from 0.13 million troy ounces in 1999 to about 1.3 million troy ounces in 2012, making Tanzania one of the largest gold producers in Africa. In 2015, the output by the major producing mines was 1.3 million troy ounces of gold (valued at \$1.6 billion); 6,292 tons of copper; and 254,456 metric tons of coal (valued at \$12.7 million). In addition, 191,407 carats of diamonds (valued at \$53.3 million) were produced at the Williamson Diamond Mine.

From 1998 to 2012, cumulative mining and quarrying FDI was US\$7.3 billion. Since 2008, mining FDI represented 30 to 50 percent of total annual FDI flows, resulting in the commissioning of seven mines. As a result of these developments, Tanzania became one of largest producers of gold in Africa, competing with Mali for the third place behind South Africa and Ghana. Industrial production from large scale mines started with 628.6 troy ounces in 1998 ramping up to 134,658 troy ounces in 1999. Since then, production has increased rapidly, peaking at 1.4 million troy ounces in 2004 and 2005 and stabilizing around 1.3 million ounces annually through 2015.

Gold remains a leading foreign exchange earner, amounting to \$341.1 million or 18% of total exports and 89% of total mineral exports in the year ending 2014. Partly due to adverse market conditions (fall of prices to about US\$1200 per ounce), gold is now the second major export earner after tourism, which earned \$635 million or 33.4% of total exports in 2014. According to estimates from the Tanzania Minerals Audit Agency, planned mine production, expansion and new development between 2014 and 2023 could not only increase gold production, but also diversify minerals produced (commission of the Mkuju River uranium mine and the Kabanga nickel mine) and generate nearly US\$2.5 billion in fiscal revenues. Also, with the recent discovery of significant natural gas reserves, extractive industries are expected to become the engine of growth in the country. Since joining the EITI, Tanzania has produced six reports, which indicate that from July 1, 2008 to June 30, 2014, the government collected \$2.6 billion from the extractive companies.

Relationship to CAS/CPS/CPF

The extractive industries have been plagued with claims of poor governance. One of the recommendations of the Country Assistance Strategy (CAS) Progress Report for FY12-15 is recalibrating World Bank Group support for Tanzania's Development. The proposed project is linked to the second pillar of the proposed adjustment to the CAS, namely the programs that target reduction of extreme poverty and improvements in quality of social services. This pillar of the CAS Progress Report emphasizes improving public expenditure transparency and management. The project links with Tanzania's Open Government Partnership (OGP) and contributes to improving data access, implementing open data policies and data management. The proposed project contributes to the CAS by facilitating the mainstreaming of natural resource governance in the country's governance framework, by building the institutional capacity to operationalize key relevant pieces of legislation, namely the Tanzania Extractive Industries (Transparency and Accountability) Act of 2015, the Petroleum Act of 2015, and the Oil and Gas Revenue Management Act.

II. Project Development Objective(s)

Proposed Development Objective(s)

The project development objective is to strengthen Tanzania's institutional capacity to implement the country's EITI legislation and achieve compliance with the 2016 EITI validation Standards.

Key Results

- (i) TEITI Secretariat acquires the institutional capacity to meet the 2016 EITI Validation Standards and enforce the TEITI Act and regulations (achieving EITI Validation);
- (ii) Informed debate on the improving the benefits of extractive industries (degree of civil society and population involvement in shaping decisions related to national mineral resources); and
- (iii) better framework for transparency and prevention of tax evasion (implementation of a beneficial ownership registry).

III. Preliminary Description

Concept Description

The project consists of the following activities:

1. Enhancing transparency of the extractive industries: this is achieved by supporting activities aimed at implementing the EITI Board corrective actions and Validator's recommendations emerging from the 2017 Validation exercise (\$210,000): On 25 October validation against 2017, Tanzania underwent a review of progress toward validation against the 2016 EITI Standard. The EITI Board determined that Tanzania has made meaningful progress overall in implementing the EITI Standard. The EITI Board recommended corrective actions on the following requirements:

- EITI Standard relating to government engagement (requirement 1.1),
- MSG governance (1.4),
- EITI work plan (1.5),
- License allocations and register (2.2 and 2.3),
- Government's policy on contract disclosure (2.4),
- State participation (2.6),
- Production and export data (3.2 and 3.3),
- Comprehensiveness of revenue disclosures (4.1),
- Transportation revenues (4.4),
- State-owned enterprises transactions (4.5),
- Direct subnational payments (4.6),
- Revenue management and expenditures (5 .1),
- Quasi-fiscal expenditures by state-owned enterprises (6.2)
- Economic contribution of the extractive sector (6.3),
- Public debate (7.1), and
- Follow-up on recommendations (7.3).

2. Promoting Public-Private Dialogue on the impacts and benefits of the extractive sector (\$240,000): This activity will address current public concerns about the benefits of mining through increased public understanding of EI revenues, utilization of receipts at district level, public debates on EI resources revenue management, and support to CSOs to improve their capacity in analyzing and using EITI Reports.

3. Supporting the Business Registration and Licensing Agency (BRELA) to undertake a study for developing a framework for a register of beneficial ownership for the extractive companies in Tanzania (\$150,000): At the Anti-Corruption Summit in London on May 12, 2016, the United Republic of Tanzania committed to ensure that beneficial ownership is publicly available for all companies active in the extractive sector. Tanzania also committed to ensuring that Tanzania will establish a central register for beneficial ownership of extractive companies where law enforcement agencies will have access to the information. In fulfillment of this commitment, the project will

support BRELA to design a register for a beneficial ownership of all the extractive companies in Tanzania.

4. Implement Recommendations and undertaking amendments on provisions of the identified laws that do not support concept of BO disclosure (\$110,000): In July 2017, Tanzania published a study on beneficial ownership, which focused on sixty-eight extractive companies that had participated in the reporting of the Fifth and Sixth Tanzania EITI Reports. Fifty-four companies (33 mining and 22 oil and gas) provided data. Twenty-three out of the fifty-four companies provided details of entities/persons with which they are cooperating - contractors and joint venture, etc. Eight companies disclosed natural person as beneficial owners. Thirty-one companies disclosed their beneficial owners as a combination of company and individuals. Eleven companies disclosed company as beneficial owner. Twenty-five companies disclosed persons with influence over the actions or management of their companies. Two companies disclosed existence of politically exposed persons (PEP) within their companies. The project will support a review of legal arrangements and recommendations which will improve the coverage and scope of beneficial ownership registry.

IV. Safeguard Policies that Might Apply

Safeguard Policies Triggered by the Project	Yes	No	TBD
Environmental Assessment OP/BP 4.01		X	
Natural Habitats OP/BP 4.04		X	
Forests OP/BP 4.36		X	
Pest Management OP 4.09		X	
Physical Cultural Resources OP/BP 4.11		X	
Indigenous Peoples OP/BP 4.10		X	
Involuntary Resettlement OP/BP 4.12		X	
Safety of Dams OP/BP 4.37		X	
Projects on International Waterways OP/BP 7.50		X	
Projects in Disputed Areas OP/BP 7.60		X	

V. Financing (in USD Million)

Total Project Cost:	0.5	Total Bank Financing:	0
Financing Gap:	0		
Financing Source			Amount
Extractives Global Programmatic Support			0.5

VI. Contact point

World Bank

Contact: Mamadou Barry

Title: Sr Mining Spec.

Tel: 473-3561
Email: mbarry2@worldbank.org

Borrower/Client/Recipient

Name: Ministry of Energy and Minerals
Contact: Sabai Nyansiri
Title: Coordinator
Tel: +255 756 247 821
Email: sabainyansiri@yahoo.com

Implementing Agencies

Name: TEITI Secretariat
Contact: Catherine Mbatia
Title: Communications Manager
Tel: +255 756 247 821
Email: catherine@teiti.or.tz

VII. For more information contact:

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>