

Defying the Looming Resource Curse with Indigenization? Insights from two Coal Mines in Tanzania

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Abstract

Tanzania's rich mineral deposits coupled with poor performance of the mining sector have triggered a public debate on the imminent danger of the 'blessing' of mineral resources turning into a 'curse'. In efforts to possibly avoid the resource curse, the role of the state in mining through the revival of state-owned enterprises (SOEs) and the promotion of indigenous participation have been strengthened. Using accounts from semi-structured interviews, focus group discussions and secondary sources, we present insights from two coal sites; one where state-owned enterprise is involved in a joint venture with a western multinational (Tancoal) in Ngaka and the second, which was privatized to domestic investors connected to the ruling elites (Kiwira). Findings from the first case shows how state involvement as a strategy to avoid resource curse may violate the rights of small holders contrary to the popular discourse that state involvement is going to safeguard smallholder's rights. The second case shows how indigenization, which is meant to empower local investors, can be misused to enrich domestic investors and political elites through patronage networks.

Introduction

Resource curse refers to phenomena where natural resources endowment leads to negative socio-economic and political conditions in resource rich countries particularly mineral and oil rich nations. The literature on resource curse, suggest that resource rich nations experience slow growth and low per capital income, high debt levels, non-diversified economies, tend to be more autocratic and are prone to civil unrest and conflicts (Ross, 2004, 2003; Auty, 2001; Karl, 1997).

As resource-rich nations across the world struggle to reap sufficient economic rents and social benefits from their natural resources, countries are

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increasingly claiming ownership of minerals, oil and natural gas. This return of the state in the extractive sector is widely viewed by opponents as a threat to free trade in the era of globalization. Conversely, resource-rich nations argue they want to boost national revenues and improve people's welfare (Andreasson, 2015; Childs, 2016).

In Tanzania, recent experience especially in the mining sector shows the sector has had unsatisfactory contribution to the economy due to low revenues accrued to the state compared to the rapid growth rate of the mining sector in the late 1990s and early 2000s (Lundstøl *et al.*, 2013). Revenue shortfalls were mainly attributed by Lundstøl *et al.* (2013) to investor-friendly incentives such tax exemptions, while the state was held to blame for poor tax collection system. This has led to public dissatisfaction and outcry over the contribution of the mining sector to national development. Public dissatisfaction inspired the drafting of new legislation aimed at boosting the contribution of the mining sector to the Gross Domestic Product (GDP). The new Mining Act was introduced in 2010; it toughens the conditions under which foreign mining companies operate by removing some tax exemptions and increasing taxes and royalty levels (Shayo, 2014). The act also paves the way for state involvement in mining through SOEs (*ibid*). This is a complete reversal of the liberalization policies that were widely implemented by the government in the 1990s which gave investors strong position and guarantees against state interference. Recently as a result of new pieces of legislation, the state has come back in again through state co-ownership in joint-venture operations involving SOEs and multinational corporations (MNCs).

The existing literature of why mineral and energy rich countries might suffer from resource curse is extremely polarized. One extreme body of literature points to six dominant explanations: (i) revenue volatility due to fluctuation on world commodity markets; (ii) the "Dutch disease", where natural resource boom may lead to fiscal and macro-economic instabilities; (iii) the increasing role of the state associated with elite motivations, decisions over natural resources investments, corruption and rent seeking; (iv) the crowding out effect where large-scale investments associated with the commodity boom could retard other productive sectors of the economy notably manufacturing; (v) the decline in terms of trade; and (vi) institutional factors in rentier states (Stevens 2013; Sachs and Warner 2001; Stevens and Dietsche 2008; Brunnschweiler and Bulte 2008).

Other scholars have argued for a holistic approach to resource curse which should also include social and ecological dimensions. This includes environmental damages and unfair distributions of cost arising from extraction activities at the sub-national level where people experience the real impacts of resource extractions (Goodman and Worth 2008). While the six explanations are interesting in different ways, this paper focuses on the third argument, i.e. the increasing role of the state, which is considered crucial in understanding the Tanzanian case, particularly the involvement of state-owned enterprise and indigenous investors in the coal sector. The re-emergence of SOEs and involvement of indigenous investors in Tanzania's mining sector is interesting in many ways. We focus on one particular striking puzzle: will the involvement of indigenous investors and the state through the revival of SOEs in the mining sector counter the looming resource curse phenomenon as championed by the political elites?

Using two coal sites (TANCOAL and Kiwira coal mine), we argue that, although the foreign-dominated mining sector contributed little in terms of revenues to the state budget and overall contribution to the GDP, the involvement of the state and indigenous investors as a strategy to maximize fiscal contribution and avoid resource curse may not guarantee that better management of resource rents and socio-economic development as claimed by the political elites. Indigenization can turn out to be a means to enrich political elites and achieving short-term political gains at the expense of the long-term economic transformation and thereby accelerating the resource curse phenomena. The paper also argues that state involvement as way of avoiding resource curse could violate rights of smallholders as opposed to the popular discourse that state involvement was going to safeguards their rights.

The paper is organized into six sections. After the introduction, we present research methods and description of the two study sites and also provide justification for focusing on coal. Section three discusses the theoretical and empirical literature on resource curse focusing on the contested role of the state, and then we provide a background of Tanzania's mineral sector and the coal sub-sector. The fifth section discusses findings and insights from the two case studies, and we end with a brief conclusion.

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Research Methods and Description of Study Sites

Research methods

Fieldwork and data collection was conducted between 2015 and 2016. This paper will focus mostly on data collected from the two coal sites supplemented with additional data from collected in the capital Dar es Salaam and Ruvuma regional headquarter. This includes secondary and primary and data collected during two ethnographic visits in Ngaka and Kiwira. Our trip to Ngaka included site visits to Tancoal mine and to the two adjacent villages of Ruanda and Mtunduwaro. Since mining operations have ceased at Kiwira currently, our visit included a tour of the old Kiwira coal mine, the defunct coal-fired power plant combined with ethnographic engagements with STAMICO officials on site.

We conducted in-depth semi-structured key informant interviews with eight government officials affiliated with the Ministry of Energy and Minerals and Tanzania Mineral Audit Agency and six experts from NDC and STAMICO. In Ruvuma and Mbinga, we interviewed eight regional, district and village officials, three members of local non-governmental organizations, four local medical officers and thirty three residents made up of farmers, herders and small business owners in Ruanda and Ntunduwaro villages respectively. We also undertook two focus group discussions in Ruanda and Ntunduwaro and participated in two village meetings in Mtunduwaro where coal and resettlement were top on the agenda.

The primary data collected was supplemented by extensive review of literature on the history of coal in Tanzania and the mining in sector in general. In addition, various government documents were reviewed including the budget speeches of the Ministry of Energy and Minerals and reports of several commissions which had been appointed to review the mining sector in the 1990's and mid 2000's.

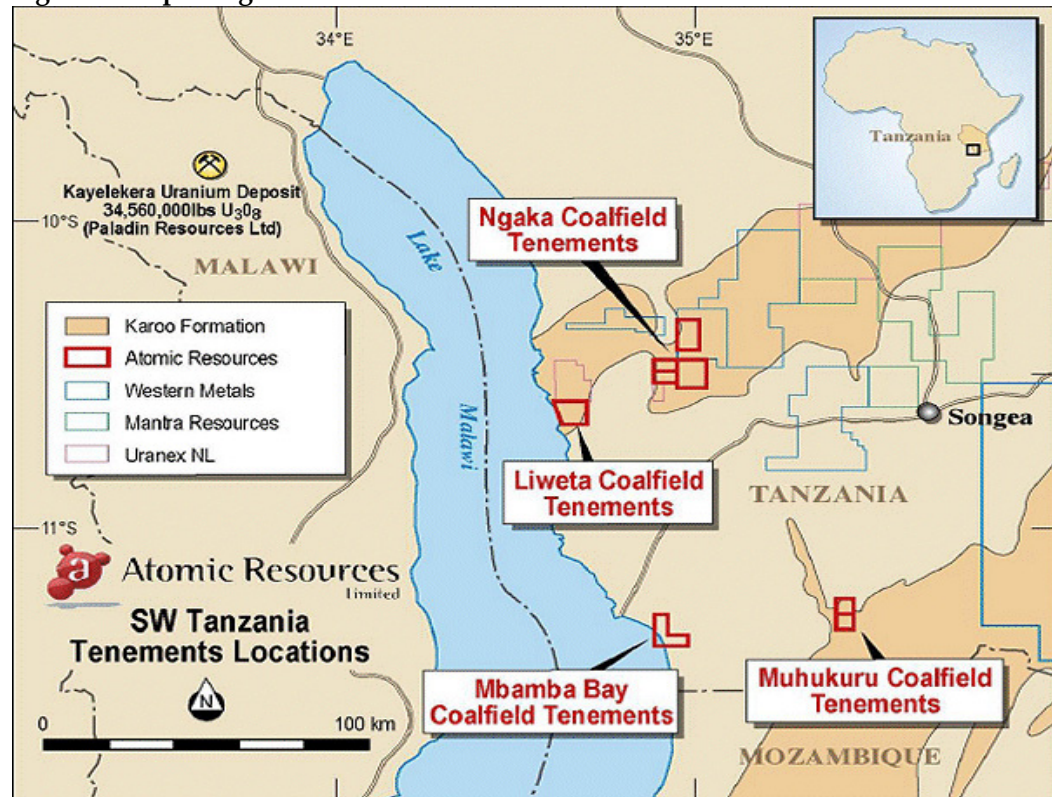
Description of Study Sites

Ngaka (Tancoal) Coal Mine

Ngaka Coal Mine is a Joint venture between NDC and Intra Energy Corporation of Australia, located in Mbinga District, Ruvuma Region. The company was formed in 2008, and coal production started in 2011. TANCOAL produced 327,141 tons of coal worth about T.sh 25.2 billion between 2014 and 2015. The company has been selling coal to various industries in Tanzania and neighbouring countries such as Kenya, Malawi

and Zambia. There is also a plan the construct of a 250 Megawatt coal-fired power plant to supply electricity to the national grid.

Figure 1: Map of Ngaka coalfields



Source: Tancoal, 2011

Kiwira Coal Mine

Construction of Tanzania’s first coal mine began at Kiwira, Mbeya in 1983, and it was completed in 1988. Coal production started in 1989 under the State Mining Corporation (STAMICO), with technical support from the government of China. The mine produced coal and generated 6 megawatts of coal-fired electricity.

At the height of the liberal reforms in 1992, STAMICO was listed for privatization by the Parastatals Sector Reform Commission (PSRC) due

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inefficiency and financial loss. However, the privatization never materialized. In 2005, as President Mkapa was preparing to leave office, Kiwira was privatized to Tan Power Resources Limited, a company made up of a consortium of local businessmen associated with powerful political elites (Mkapa and Daniel Yona). Under the privatization deal, Tan Power acquired 70% shares while the government through Consolidated Holding Corporation (CHC) remained with 30%. There was a public outcry following the controversial fast-tracked privatization deal. While the mine and its infrastructure were valued at US\$4.29 million in 2005, TANPOWER bought it for 700 million tsh (US\$678,295) at the time.

Following the public outcry in 2008 the government regained the ownership of Kiwira coal mine and placed the mine under the care of the Treasury Registrar. In 2013 the government hands Kiwira coal mine back to STAMICO with the mandate to find joint-venture partners to re-develop the mine and resume coal production and power generation. Currently, STAMICO is searching for investors to resume production and to construct a 200-MW coal-fired power plant (STAMICO 2015).

Figure 2: Map of Kiwira Coal Mine



Source: STAMICO, 2016

Why focus on coal!

Our choice of coal is inspired by two factors; first the Tanzanian case is unique as coal is experiencing a boom time in recent years. While FDI from gold and diamond has fallen in recent years, coal has peaked tremendously and various coal projects are underway while many are still in planning phase. Apart from the two cases discussed in this paper, the government through NDC has embarked on a \$3 billion joint venture investment described above which is heavily linked to power production. Also, as described earlier, unlike other minerals, coal is understudied and studies linking coal with resource curse are rare. The growing government interests over coal and elites efforts to link coal with energy security and industrialization deserve scholarly attention. To the author's knowledge, this is the first study to link coal and resource curse in Tanzania and Sub-Saharan Africa at large.

Secondly, also most studies on resource curse have concentrated on the impacts at the national level with focus on macroeconomic impacts. One of

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our cases offers the chance to examine resource curse at the sub-national level, an aspect that is often ignored.

Theoretical Discussion on State Participation in Resource Rich Countries

Ruling elites from South America, Asia to Africa have reiterated the need to assert state control (fully or partial) over industries, and increasingly mineral and energy resources has been looked towards for national economic projects. The trend is characterized by a wave of protectionist rhetoric and new legislation combined with securitization of economic interest to legitimize such moves. This has taken place in developed, emerging and developing economies with a new interest in controlling imports, nationalization and (re)emergence of powerful state-owned enterprises acting as a reminder by national states to global corporations that they still exist (Szakony 2007, Pryke 2012).

The resource curse literature widely acknowledges that role of state is fundamental is turning resource-richness into either curse or blessings. State involvement and how it's done affect management of mineral and energy resources as well as developmental prospects of resource-rich nations. One section of the literature has sought to explain the outcome of resource curse based on the type of state. This explanation is based on the existence of the so called developmental and predatory state. It argues that developmental resource rich nations tend to allocate rents in sectors that benefit the wider population while predatory states are characterized by unproductive distribution of rents to the ruling elites and their political constituencies. The difference between developmental and predatory states lies in the incentive structure driven by resource rents and its impact on the relationship between ruling elites and the wider society. The predatory state is sometimes referred to as rentier state which is characterized by widespread corruption, neopatrimonial practices and clientelism (Ross 2001; Auty and Gelb 2001).

Scholars have also cited a number of the so called successfully cases of countries where state involvement has avoided resource curse and inspired economic development. These countries include Norway, Canada, Indonesia, Malaysia, Chile and Botswana (Wright and Czelusta, 2007; Iimi, 2006; Stevens, 2006). In the case of Africa, Botswana's Debswana has been hailed a successful SOE that has produced substantial revenues and accelerated economic growth in the diamond-rich nation (Mbayi 2001; NRGI, 2015). However, critics argue that cartel nature of the Diamond business in particular Debswana's joint venture with Debeers has insulated Botswana

against price volatility. They further argue that although rents have re-invested well, the country is also characterized by unproductive public investments (Lange and Wright 2004).

Others have focused on state-business relations and the ownership of mineral and energy resources through SOEs. They argue that most SOEs in developing countries involve strong ties between ruling elites and state bureaucrats who are appointed to run them. SOEs in these countries such as Mexico, Venezuela and Nigeria have become too powerful and have been used by elites to squander resources and accelerate regional and ethnic patronage. These SOEs are also likely to concentrate on non-commercial objectives (Ascher 1999; Kang 2002). On the other hand, others have argued that SOEs do perform well in some cases and can withstand competition in both domestic and international markets. Using examples from the Gulf States, Hertog (2009) shows that oil-rich states have escaped the resource curse due to the effectiveness of SOEs, pointing out that SOEs enjoyed strategic advantage such as state subsidies and market monopolies.

Di John (2009) argues that governments tend to use natural resources SOEs to implement their populist initiatives aimed at extending their stay in power. SOEs also create conditions for ruling elites to enrich themselves and this can decrease revenues from mineral and oil resources. On the other extreme pro-market friendly researchers such as Weinthal and Jones Luong (2001) who studied the impact of resource curse in Russia and former Soviet Republics argue that ownership structure is an important variable which has been neglected in the literature. They argue that privatization and the manner in which it is done is a key determinant of either falling into or avoiding different aspects of what is called resource curse. They claim that countries that privatize their energy resources are more likely to escape resource curse than those that maintain state ownership. They further emphasize that this will only happen if privatization involve selling of assets to domestic investors (Weinthal and Luong 2001).

Weinthal and Luong (2001) point out that domestic investors have a much superior bargaining power vis-à-vis the state compared to foreign investors. While foreign investor's bargaining power decline faster once they have injected capital and operation costs increases, domestic investors maintain their bargaining power vis-à-vis the state because they both need each other and can easily reach a compromise for the sake of business and political survival. To justify their claims, they point to Russia and Kazakhstan which

privatized their oil sector to domestic and foreign investors with the aim of boosting their tax takes. While domestic investors have helped to boost Russia's tax base, Kazakhstan's tax system has become volatile and over-dependent on foreign investors (ibid).

However, drawing examples from Hugo Chavez's Venezuela and Evo Morales's Bolivia, writers like Emel *et al* (2011) have cautioned about the limitations newly resurging "resource nationalism" in the globalized world. As far as coal is concerned, studies on resource curse around the world have neglected coal as compared to other minerals. This is partly due to the fact that coal is considered as energy mineral and many coal projects do not attract significant rents compared to traditional metals such as gold and diamond. However, global trends show increasing patterns of state control over coal compared to other metals. From China, India, Russia, Poland to South Africa SOEs dominates the coal sector (Ericsson and Löf 2011; McPherson, 2008). In India, state-owned coal India, the largest coal company in the world represents massive state control over the coal sector. Coal India is seen as a national icon and a crucial element to securing India's energy sovereignty. Coal India is also a symbol of how resource nationalism revolves around coal in India (Lahiri-Dutt, 2014).

History of the Mining Industry in Tanzania

Tanzania is among Africa's top mining nations. The country is endowed with various minerals including diamonds, gold, cobalt, copper, nickel, platinum group metals, silver and Tanzanite, a rare gemstone unique to Tanzania (MEM, 2014). It is currently Africa's fourth-largest gold producer behind South Africa, Ghana and Mali (Lokina and Leiman, 2014). There are seven large scale gold mines, one active large scale coal mine, several medium scale mines (mainly for diamond and tanzanite) and a number of small scale mines mainly for gold, diamonds and colored gemstone operating across the country. Similarly, prospecting and preparation for exploration of other minerals including uranium, coal, iron, copper and nickel is ongoing in different parts of the country.

Direct state involvement in the mining sector was in full swing just after independence when the government established the NDC in 1962. NDC took control over Williamson Diamond mine and began to acquire new stakes through various joint ventures. In 1972 seven mining ventures under NDC were divested to the newly created STAMICO. The first post-independence Mining Act was enacted in 1979. The new act strengthened STAMICO's

mandate and ownership of mineral resources remained vested in the state. Economic crisis in the 1980's and early 1990's led to a gradual withdrawal of the state in the mining sector and paved way for the liberalization of the sector in the late 1990's (Pedersen et al 2016).

The mining sector experienced rapid growth after the consolidation of liberalization policies under President Mkapa from 1995 to 2005. In 1998, the 1979 mining Act was replaced by the then new mining act of 1998 after intense pressure from the World Bank. The new act aimed at attracting foreign direct investments in the mining sector. The Mining Act 1998 offered various incentives to create an enabling environment for foreign investments in the mining sector. The law (the 1998 Act) allowed 100% foreign ownership, unlimited repatriation of profits and capital, and offered guarantees against nationalization and expropriation (Bourgouin, 2011).

Other incentives included generous tax exemptions (no import duty or Value Added Tax (VAT)) on mining equipment's and relatively low royalty rate of 3% (Butler, 2004). The sector remains the largest recipient of foreign direct investment and was the largest contributor to Tanzania's export until 2014 when it was overtaken by Tourism in 2015. Major developments in the mining sector over the past two decades have been dominated by the gold-sub-sector. It has long been a goal that mining should contribute 10% of the country's GDP by 2025. Revenues have gone up recently, but they are still far from the 10% threshold. Despite mineral abundance, the sector contributed less than 4% to the GDP in 2016.

Despite the boom in in the past two decades, the mining sector still faces various challenges. The perception among politicians, academics and the general population is that the mining sector contributes too little to state revenues and the general economy in general. Even though the share of jobs and revenues going to Tanzanian stakeholders has been increasing (Lange & Kinyondo, 2016), many critics still find that integration with other sectors of the economy is limited. They argue that efforts to fully integrate the mining sector with the rest of the economy are hindered by various factors such as weak capacity by domestic firms and local entrepreneurs, poor policies, and weak institutional capacity and strong interests of the ruling elites (Hansen et al. 2015). Therefore, they see the sector as characterized by insignificant contribution to state revenue and GDP, weak enforcement of environmental regulations, poor support and evictions of artisanal miners and widespread

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discontent and resistance from surrounding communities (Fisher 2007, Curtis and Lissu 2008).

Based on the recommendations of a number of mining sector review commission reports¹ in the 2000s, terms have been strengthened significantly under the new Mining Act (2010). A new Mining Policy was promulgated in 2009 a result of series of mineral sector review reports which revealed that the country had not benefited from mining as much as it should (SID 2009). The reports recommended among other things a review of taxation and government oversight in large-scale mines and the need for the government to take equity share in minerals (Bomani, 2008). Based on such recommendations a new mining policy was approved in 2009 followed by the current Mining Act of 2010. The Mining Act No.14 of 2010 repealed the former Mining Act, No. 5 of 1998 (URT, 2010). The overall aim of the 2010 Act was to strengthen Tanzanian stakes and benefits from the mining sector. This would be achieved through state participation in mining investments, improved rights to artisanal miners, increased taxes and royalties and direct Tanzanian stakes in mining operations (Jacob et al, 2016).

The 2010 Act also seeks to accelerate the integration of the mining sector with other sectors of the economy, maximize the contribution of the mineral sector to the economy, increase income and employment opportunities to Tanzanians and ensure state participation in strategic mining ventures. It has also toughened the conditions under which mining companies operate by removing some tax exemptions and increasing taxes and royalty levels (*ibid*).

Not only is the state seeking more involvement in operations through direct shares in new operations through the State Mining Corporation (STAMICO) and National Development Corporation (NDC) but also, local content provisions have been strengthened, calling for companies to more actively procure local goods and services as well as train Tanzanian staff to replace expatriates. However, it has been noticed that these requirements are not always binding for the companies (Mjimba 2011).

Coal Resources in Tanzania

Tanzania is endowed with substantial coal reserves, especially along the Ruhuhu Basin (Katewaka-Mchuchuma and Ngaka) and in Songwe (Kiwira), in the south-west of the country. Tanzania's known coal reserves stand at 1.5 billion tonnes, although a recent revised estimate suggests that the country could have up to up to 5 billion tonnes (TMAA 2014). The existence of coal in

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Tanzania was first documented by the German geologist Wilhelm Bornhardt, following his earlier geological exploration work in 1896 in what was then German East Africa. Coal feasibility studies were later undertaken by the British colonial government in the 1950s and by Chinese geologists between 1975 and 1979. Even after these studies had reported, coal deposits remained unexploited for many years, as they were deemed unviable due to the remoteness of the deposits and the large investments required to develop them (Snowden 1993).

There is currently one active coal mine in Ruvuma² region, but six large and medium coal projects involving power generation are in advanced stages of construction in various parts of the country (see Table 1). The most notable coal project is the \$3 billion joint venture between the state-owned National Development Corporation (NDC) and the Chinese Sichuan Hogda group in Mchuchuma, south-west Tanzania. This project, which is likely to start in 2016, involves the development of the Mchuchuma coal mine and the generation of 600 megawatts of coal-fired electricity, of which 350 megawatts will be fed into the national grid, while the remainder will be used by the coal mine itself.

Table 1: Status of Current Coal Projects in Tanzania

| | Project Name | Investors | Coal Reserves (Million Tonnes) | Status | Proposed Coal-Fired Power Plant |
|---|---|----------------------|--------------------------------|------------------|---------------------------------|
| 1 | Ngaka Coal Mine | TANCOAL | 423 Mt | Active Mining | 250- 400 Megawatts |
| 2 | 2a. Mchuchuma | TCMRI | 428Mt | Advanced Project | 600 Megawatts |
| | 2b. Katewaka | MMRDL | 200 Mt | Advanced Project | Unspecified |
| 3 | Mbeya Coal to Power | Kibo Mining | 109 Mt | Advanced Project | 200-400 Megawatts |
| 4 | Kiwira Coal | STAMICO | 35.8Mt | Advanced Project | 200 Megawatts |
| 5 | Namwele, Mkomolo, and Muze Coal Project | Edenville | 173 Mt | Advanced Project | 120-200 Megawatts |
| 6 | Maturi Coal | Off Routes | Unspecified | Advanced Project | 200 Megawatts |
| 7 | Magamba Coal | Magamba Coal Limited | Unspecified | Advanced Project | 200 Megawatts |

Source: Table prepared by the authors based on field visits and interviews with government officials in July-August 2015 and June- July 2016.

Findings from the two case studies

Ngaka Coal Mine

Contrary to the popular discourse that state involvement in a joint venture with private investors is going to safeguard smallholder’s rights in the mining sector and other large-scale investments in natural resources, we found a lot of bitterness among the communities surrounding the Ngaka coal Mine. Community discontents range from environmental problems, social tensions and loss of livelihoods.

State participation in Ngaka coal through joint-venture with the Australian corporation led to mining-induced displacement and loss of land and livelihoods to nearby residents of Mtunduwaro and Ruanda villages. Over

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499 villagers who were resettled to pave way for the coal mine. For many resettled villagers, the resettlement was more than just a physical movement but involved loss of land, agricultural jobs and collapse of social networks.

During focus group sessions, respondents stated that resettlement has led to poor crop yields, food insecurity and increased the cost of farming. Many resettled villagers have been forced to move away from their fertile croplands and shift to new areas with poor quality soil. Few villagers who are financially stable are now forced to use fertilizers to boost soil fertility in new areas. With the increased role of state in coal investments, state-owned enterprises (NDC in this case), and corporate partners are more likely to violate smallholders land rights as such investments are deemed to be of 'national importance'.

Resettlement has also led to social conflict and tension between residents and TANCOAL. In 2013 for example, violent clashes between villagers in Mtunduwaro and anti-riot police from the regional headquarters led to temporary closure of the mine. In this incidence, villagers were protesting what they believed was unfair compensation procedures used by the investor. Apart from social and economic impacts, there is also fear of environmental catastrophe and potential ecological curse. Three major environmental problems were identified in connected to coal mining in Ngaka. First is water pollution due to changes in local hydrological conditions. Most interviewees expressed their bitterness that TANCOAL is *spilling*³ coal effluents into rivers used for irrigation and seasonal fishing activities. Most affected rivers include river Nyakatinda and Mmwamaji. As a result of spillage, villagers are complaining about death of fish, crop failure and loss earnings from agriculture and fishing.

The second environmental impact identified is air pollution due to dust which is affecting local air quality and increasing cases of respiratory infections. Data obtained from local medical dispensaries in Mtunduwaro and Ruanda villages shows between February and August 2015, the dispensaries experienced outpouring cases of pharyngitis, tonsillitis and rhinitis which are associated with upper respiratory infections resulting from dusts. Most villagers are not covered by health insurance and medical expenses have turned into a financial burden. Thirdly, is about increasing cases of noise pollution from blasting activities near the mine especially in Mtunduwaro village. As a result of blasting and heavy explosions, a number of houses are developing cracks. Furthermore, several bridges connecting the

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villages with the District are in bad shape due to pressure from TANCOAL's heavy trucks transporting coal from the mine to a collection site. The complaints of the Ruanda and Mtunduwaro villagers reached the Parliament in May 2015, when the then Member of Parliament for Mbinga East, Gaudence Kayombo posed a question seeking "to know what is important between the public and the Ngaka coal mine", and if the government realizes the health hazards caused by dust from the coal dust and steps taken to safeguard residents living around coal mine areas⁴. In response to the question, the then Deputy Minister for Energy and Mineral, Mr Charles Kitwanga, said TANCOAL was planning to construct a the 93km road that will pass away from residential areas to protect the public against coal dust during mining and when transporting the coal in lorries. The Deputy Minister said the road which will be constructed to a permanent level, and that it would cost a total of US 10 million dollars. The road is yet to be constructed as promised.

Kiwira coal mine

The Kiwira case shows the extent to which gatekeeper politics and expansion of patronage networks within the ruling party could impact management of natural resources especially when domestic investors are in control. While Weithal and Luong (2001) would argue that ownership of minerals by domestic investors would lead to better outcomes and minimize resource curse, our findings from Kiwira shows the extent to which entrepreneurial elites and domestic investors could use their patron-client networks linked to the ruling elites to cripple state-owned enterprises and thereby leading to poor investment outcomes and hence accelerating the looming resource curse.

This case also demonstrates how indigenization agenda has provided opportunities for politically-connected domestic investors to engage in private wealth accumulation at the expenses of the mining sector. This is similar to Zimbabwe's black economic empowerment and indigenisation policy championed by President Robert Mugabe in the 2000's. The policy aimed at empowering domestic black investors to take control of the foreign-dominated agriculture and mining sector. In Zimbabwe, indigenisation was partisan and elite driven and it ended benefiting few domestic investors with close ties to some powerful political factions within the ruling ZANU-PF party (Magure 2012). With party loyalty at play in the Kiwira case, ownership of the coal mine was transferred to ruling party loyalists with

limited capacity to operate the mine leading to decline in output and eventual cease of operation.

Conclusion

Recent governance intervention in the extractive resources especially coal, suggest a renowned significance of the state in Tanzania. Through state-owned enterprises and indigenous investors, the state re-emerges as a critical actor in the governance of coal. The "resource curse" literature clearly shows how the increased role of the state and indigenization efforts can either lead a country into or out of resource curse. While some countries such as Chile and Botswana have managed to beat the resource curse trap with the increased role of state, our findings from the two coal cases suggests this may not be the case for Tanzania.

We have examined the prospects of the scourge of resource curse in Tanzania, where the leadership has strengthened the role of the state in mining through the revival of state-owned enterprises (SOEs) and tried to promote the participation "indigenous" investors in mining activities. We have presented insights from two coal sites; one where state-owned enterprise is involved in a joint venture (Tancoal in Ngaka) and the second case where a state-owned coal mine was privatized to local investors connected to the ruling elites (Kiwira). Findings from Kiwira coal mine show how indigenization can be misused by domestic investors connected to the ruling elites. The closure of Kiwira and subsequent return to the state demonstrates poor investment outcomes from indigenization efforts. The trend if continues is likely to enrich both state elites and indigenous business elites could accelerate the resource curse phenomenon. We do not argue that extraction of coal through indigenous investors is necessarily bad, our policy advice would be to critically assess the capacity of domestic investors interested in sector instead of patron-client based indigenization as in the Zimbabwe case. This is crucial at the time when support for indigenization seems to be growing due to poor performance of foreign-dominated mining sector.

Our second case in Ngaka shows the extent to which the involvement of state as a strategy to avoiding the resource curse, can violate land rights of small holders and perpetuate environmental degradation and ecological curse, contrary to the popular discourse that state involvement in mining venture was going to safeguard and improve smallholder's rights. We have shown how state participation as an investor allows the government through SOEs

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to dispossess smallholders land to pave way for coal extraction. These socioeconomic and environmental impacts associated with coal mining are a clear manifestation of the looming resource curse.

With regard to resource rents, despite substantial increase in revenues and royalties paid by TANCOAL in Ngaka, questions still arises on the position of state in the joint-venture. State is represented by NDC which like many other state-owned enterprises, is lagging behind in terms of disclosure of fiscal terms associated with its investments. This has implications on transparency and amount of revenues accruing to the state. While the liberalization phases from the early 1990's onwards gave foreign investors stronger position over the state, the trend is now changing as the Tanzanian state increasingly claims stakes in mining operations. But the manner of state involvement is different from the radical nationalization in the 1960's and 1970's. Through state-owned enterprises and indigenization sentiments, the state seeks to boost contribution of the mining sector to the economy and to enhancing local participation with the long-term vision of beating resource curse. Findings from the two cases presented call for a need to re-evaluate both state participation and promotion of indigenous investors for Tanzania to successfully defy resource curse.

Notes

1. The mining review commissions include the Mboma report 2002, Kipokola report 2004, Masha report 2006, Bukuku report 2007 and Bomani report 2008.
2. The Ngaka coal mine in Mbinga District is the only active coal mine in Tanzania at the moment. The mine operates under TANCOAL, a joint venture between the state-owned Development Corporation of Tanzania (NDC) and Intra Energy (Tanzania) Limited (IETL), was established in 2008, and began production in 2011.
3. TANCOAL does open cast mining and leaves empty holes which fill with water which discharges to local streams especially during rainy season. My interview with TANCAOL environmental and safety officer confirmed spillage problems and said the company is exploring ways to control effluent discharge and protect local streams
4. Reported in Daily News News, 28th May 2015

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