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Tanzania Sovereign Wealth Fund

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Tanzania's mining sector has been growing very fast. For the past one decade, it has achieved a growth rate of about 15% p.a. In most recent years, however, limelight has focused by and large on Tanzania's natural gas. The prospects for extracting natural gas are exciting the country. The gas reserves are reported to reach 46TCF, with some people mentioning even a more tantalizing figure of 200cft (TPDC -2013). The bottom line is that Tanzania is joining other eastern African countries that have become the arena of beehive of international oil and gas exploration and exploitation activities. This includes Kenya, Uganda and Mozambique besides Tanzania.

Under this dazzling expectation, those with experience and foresight are sagely urging caution so that Tanzania avoids pitfalls that some other resource rich countries endured. They mention the Dutch Disease as the most threatening scourge if we are not careful. This "disease" describes a situation

of large inflows of resource revenues from minerals that lead to sudden appreciation in a country's real exchange rates, leading to increasing domestic demand for tradables (including imports), while facing inelastic supply of domestic non-tradables and thus their relative price rises. The end result would be loss of Tanzania's competitiveness of its exports as well as its domestically marketed goods and services. In effect, the mineral sector may crowd out other sectors within the economy, thereby engendering rises of interest rates and factor prices, including salaries and wages throughout the country.

The Tanzania Government has been keenly aware of the potential dangers of falling into the trap akin to the Dutch disease, as well as the need for more strategic planning of how to spend mineral wealth in general. The role of an effective state in a situation of increasing wealth is to provide the following: (a) give proper direction on the policy options, (b) enforce savings and restrain recurrent budget

expenditure growth, (c) beat-off political pressure to spend quickly the accumulating mineral/gas revenues to clear the backlog of social needs, and (e) construct strategic infrastructure networks, financed with the natural resources revenues. Tanzania has among other actions laid out a Natural Gas Policy in 2013 that can accommodate the above objectives.

Natural Gas Policy 2013

It is better to quote the exact text of this policy:

"A Natural Gas Revenue Fund will be established and managed to ensure transparency and accountability over collection, allocation, expenditure and management of all natural gas revenues. Clear guidelines shall be developed transparently or through national dialogue on the optimum short-term and long-term use of the fund. In addition, transparent and sound fiscal management of the natural gas revenue spending shall be in accordance with national development plans and strategies."

The government statement in the policy texts further elaborates that the Government of Tanzania (GOT) shall “Establish Natural Gas Revenue Fund for development and growth of natural gas industry as well as for national strategic projects to unlock the economy and investment for future generation; .. (ii) Ensure that natural gas revenue is used appropriately for the benefits of the present and the future generations; (iii) Ensure that the local communities benefit from the natural gas activities in their respective localities; and (iv) Ensure that institutional arrangement, legal framework and guidelines to manage the fund are in place.”

Sovereign Wealth Fund (SWF)

Sovereign Wealth Funds have been around for many years but they gained prominence in last few decades in natural resource management. According to one TAKNET participant, they hold approximately \$3 trillion across global markets. They are state owned entities that can serve a variety of purposes, including, *inter alia*, saving for the purposes of phased spending on development priorities, covering unexpected budget deficits, saving for future generations, sterilizing revenue inflows, and ring-fencing resource revenues.

A noble aim is to guarantee that future generations also benefit from the present large oil or gas revenues. There are

other types of saving options beside the SWFs such as the Capital Development Funds used to sterilize unexpected foreign exchange inflows by spending on large capital-consuming programmes such as railways, roads, harbours and the like (for which Tanzania has been planning for years in the past without much success because of resource paucity), or a Mineral Revenue Stabilisation Fund (MRSF) applied when revenue flows from minerals are uncertain because of price fluctuations in the world markets.

The current TAKNET Brief is on the Sovereign Wealth Fund (SWF). In an underdeveloped economy, like that of Tanzania at the moment, some of the receipts accruing to the SWF may need to be invested abroad merely because the local capital market is unlikely to absorb the inflows without distorting the monetary equilibrium or simply for the sake of deposit security and financial assets value stability. The SWF in this case therefore sterilizes mineral based revenue inflows, as well as providing a basis for sustainable future incomes.

TAKNET Participants' Views on the SWF

Over a period of 5 weeks about 26 people contributed more than 40 entries to the discussion on the SWF through TAKNET. Their views can be reflected in summary form as follows:

What is the Consensus?

Overwhelming majority support the idea of establishing the SWF. They think it will be a good thing. This is despite the hesitation based on past experience, expressed succinctly by one participant about “*subtle failure of brilliant plans which have not been implemented as planned*”

What SWF should cover:

The attention of government seems to be focused on natural gas revenues of various forms. A few participants felt the SWF coverage should be extended to all minerals and even one mentioning other resources such as forestry and wildlife. It was pointed out however that doing this would risk expanding the subject into an unwieldy span, operating with resources that attract different types of stakeholders, dealing with different markets and revenue perspectives.

The above consideration notwithstanding, with enough experienced gained in running the SWF limited initially to the natural gas revenues, authorities might in future judge whether it is appropriate to extend its coverage to other types of lucrative natural resources.

Save and/or Invest.

TAKNET participants reiterated the very basic aim of the SWF as “storing” revenue savings against the propensity of governments

and people to spend oil and gas money quickly; in order to meet previously suppressed demands for essential services and projects. In one opinion, a participant put it bluntly that such saving would restrain extravagant spending already engrained by the celebratory culture currently engulfing society and government budgets.

Underlying the saving objective is the intergenerational equity consideration, that is: to safeguard inherited endowment for coming generations as well as meet our current needs. Participants insisted that SWF resources should be spent sparingly in critical areas across the whole nation, mentioning education and health, as well as infrastructure and science and technology as priorities for funds' use. In education, special needs of capacity building were underlined.

The overarching principle in public spending is to avoid using the SWF on recurrent expenditure that should ordinarily be covered by the regular government budget. A nouvelle idea emanating from TWAVEZA (NGO) that echoed a piloted scheme of direct disbursement of cash to the poor (pioneered by TASAF) was viewed by some as a direct way of empowerment of the poor. It was assessed as interesting; but some expressed misgivings, saying that it could be fraught with risks of abuse or the difficulty of financial sustainability.

For instance, unconditional cash handouts might act as disincentive to some recipients to prevent them from graduating out of the cash transfer scheme.

SWF Management and Institutional Set Up.

Effectiveness in management of the SWF was regarded by TAKNET contributors as the most important factor to enhance its justification. People warned about corruption, lack of discipline, accountability and transparency that could befall the SWF, given past bad experiences of running public institutions in the past.

Thus, the stress was put on installing proper supervision and strict regulations on how to withdraw money from the SWF, as well as ensuring proper reporting on its health and transactions. Participants in the TAKNET discussion felt that within Tanzania effective custodial services, fund accounting and administration could be carried out by existing institutions, particularly the Bank of Tanzania (BOT).

This institution would also combine the SWF responsibility within its mandate to manage monetary supply (sterilization of large money inflows) in the country, and enforce foreign exchange discipline. In this task, the BOT should coordinate with other institutions that carry out activities of close affinity with the primary objectives of the SWF, such as the ministries of Education,

Health, Infrastructures, Industry, Finance, Planning Commission, as well as NDC, SIDO, UTT, TIB, TADB, TPDC, and possibly TMAA. It might be necessary to create a special coordinating Committee under BOT to specifically supervise the activities of the SWF; and the BOT might need to create a special Unit within its structure to carry out the day to day management of the SWF activities.

Therefore, one of the key areas mentioned by TAKNET participants about SWF management is capacity of human resources. This spans the needs in managing the SWF funds as custodians. The needs extend also to technical capacity and skills in placement of SWF financial assets in various currencies, in deciding on deposit and investment options, developing expertise in watching and evaluating financial and share markets, auditing SWF operations as well as swiftly making assets/funds transfers to safeguard their value and even safety or maximize returns.

SWF managers must also have expertise to advise state planners in domestic investment avenues as well as to provide some guides on upstream, midstream and downstream gas-related activities in line with the Natural Gas Utilization Master Plan that aims to maximize the value of natural gas for national development in the wide sense. There is above all the need for local expertise of unquestionable

integrity to manage the funds. If it is decided that the BOT is the institution to assume the management of the SWF, it has to consolidate its traditional functions related to the aspects mentioned above, that become more acute with the management of large natural gas income flows.

Oversight and Monitoring Mechanisms.

However good specialized SWF management might be, it is unthinkable the SWF can be run completely without government oversight. This has to be exercised by appropriate state organs like the Ministry of Finance, TMAA, and CAG. They will also have to develop suitable monitoring capability (expertise) to nearly match with those of the institution that is operating the SWF. Nonetheless, TAKNET participants insisted that such oversight must not be politically inspired but must be only for the sake of accountability and reporting hierarchy, and, above all, the Fund's protection of its integrity and sustainability.

The need to be as transparent as possible was mentioned, in the sense that even though not all the SWF operations can be open for anybody, a balance has to be struck between confidential tasks for example

of moving funds and the need to keep the media and the general public informed about the SWF status, so as to enhance trust of the public in how the SWF resources are managed on their behalf. One participant by the way evoked the incident of IPTL, as an arrangement shrouded in secrecy that eventually ended with a lot of suspicions.

Learn from other countries.

As indicated above, worldwide sovereign wealth funds or their derivatives have been around for many years. Several countries were mentioned by participants as having experiences to impart lessons to us. Those mentioned in the TAKNET exchanges include Norway, Brazil, Nigeria, Botswana, and Libya. Zambia and Chad were not mentioned, but they offer pertinent lessons to learn from also.

Among these countries, some have successful experiences such as Norway, Botswana and Brazil. But even those with bad experiences, they provide potent lessons on how to avoid the pitfalls in managing natural resource funds. Botswana's Pula fund was established in 1994, and has been operating effectively ever since, under the country's Reserve Bank. The Zambian

experience is that of basing on tax revenues and excessive direct state involvement.

The Conclusion:

In summing up, one can say that almost all participants supported the idea of establishment of the SWF. But they insisted that its preparation and installation must be well planned and should not be rushed. Above all, they urge integrity, transparency and accountability in the Fund's management.

Acronyms

BOT:	Bank of Tanzania
CAG:	Controller and Auditor General
IPTL:	Independent Power Tanzania Limited
NDC:	National Development Corporation
SIDO:	Small Industry Development Organisation
TADB:	Tanzania Agricultural Development Bank
TASAF:	Tanzania Social Action Fund
TIB:	Tanzania Development Bank
TMAA:	Tanzania Mineral Audit Agency
TPDC:	Tanzania Petroleum Development Corporation
UTT:	Unit Trust of Tanzania

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