



UNITED REPUBLIC OF TANZANIA

DRAFT ONE

**LOCAL CONTENT POLICY OF TANZANIA
FOR OIL AND GAS INDUSTRY - 2014**

Dar es Salaam
April, 2014

ABBREVIATIONS and ACRONYMS

AIDS	Acquired Immune Deficiency Syndrome
BCF	Billion Cubic Feet
CBOs	Community Based Organizations
CSOs	Civil Society Organizations
CSR	Corporate Social Responsibility
DPs	Development Partners
EWURA	Energy and Water Utilities Regulatory Authority
FBOs	Faith Based Organization
HIV	Human Immune Deficiency Virus
IOCs	International Oil Companies
LGAs	Local Government Authorities
LNG	Liquefied Natural Gas
LPG	Liquefied Petroleum Gas
MDAs	Ministries, Departments and Agencies
M & E	Monitoring and Evaluation
NGOs	Non-Governmental Organizations
NSGRP/MKUKUTA	National Strategy for Growth and Reduction of Poverty
PPP	Public Private Partnership
TCF	Trillion Cubic Feet
TPDC	Tanzania Petroleum Development Corporation

DEFINITIONS OF TERMS

Contractor/Operator	The contracting party (parties) with Government and TPDC in a Production Sharing Agreement or equivalent.
Delivery Point	The point at the wellhead or at an inlet flange of a processing plant for the case of deep-water well.
Downstream Activities/ Operations	The marketing and distribution of natural gas and liquid petroleum products derived from natural gas and crude oil. Such products include LPG , diesel, plastics, fertilizers, pesticides and pharmaceuticals.
Goods	Commodities that are tangible usually movable and generally not consumed at the same time as they are produced.
Lead Sub Contractor	The providers of services or works (including EPC/EPMc/EPIC contractors) where the awarded contract sum is greater than \$10 million for contracts in the exploration and development phases, or greater than \$2 million for contracts in the operational phase.
Liquefaction	The process of converting gas into liquid. Liquefaction is usually achieved by compression of vapours (provided the temperature of the gas is below critical temperature), by refrigeration or by adiabatic expansion.

Liquefied Natural Gas (LNG)	A liquid form of natural gas, after been cooled to about minus 162°C (minus 260°F) at normal atmospheric pressure. The liquefaction converts the gaseous phase into an easily transportable liquid whose volume is approximately 600 times less than the original volume of natural gas.
Local	The Tanzania Mainland and its people.
Local Business	Business which is incorporated under the applicable laws of Tanzania and is wholly owned by Tanzanians or with at least 51% of shares owned by Tanzanian Nationals and is registered to offer goods or services in the oil and gas industry.
Local Content	The added value brought to the country in the activities of the oil and gas industry in the United Republic of Tanzania through the participation and development of local Tanzanians and local businesses through national labour, technology, goods, services, capital and research capability.
Local Content Plan	A plan agreed between the Ministry responsible for petroleum affairs, the Contractor and TPDC, which forms an integral part of the approval for an Exploration License, Development License and Operational License, and which guides the activities and eligibility for recovery of costs of Contractor and Lead Contractors in their use and development of Local Content.
Local Goods	Refer to goods obtained, produced or manufactured and have after-sales services in Tanzania Mainland.

Liquefied Petroleum Gas (LPG)	Light hydrocarbon material, gaseous at normal atmospheric temperature and pressure, held in the liquid state by pressure to facilitate storage, transport and handling. Commercial liquefied gas consists essentially of either propane, butane or a mixture of both.
Local Services	Services provided in Tanzania Mainland
Marshal Plan	Refer to the educational plan in oil and gas related subjects prepared to bridge the observed gaps for fast and successful operations in the oil and gas industry.
Midstream Activities	Refer to the gathering, compression and processing functions required between the wellhead and the transmission system. Mid-stream facilities and activities are found at any location where natural gas is produced, transported or sold.
National Oil and Gas Company	An oil and gas company established under the laws of Tanzania in which the Government or its agent owns majority shares.
Natural Gas	A fossil fuel naturally occurring as a gaseous mixture of light hydrocarbons in sedimentary rocks. Main constituents of natural gas are methane, ethane, propane, butane and pentane with other non-hydrocarbons compounds including carbon dioxide, hydrogen, sulphide, nitrogen and rare gases found in small quantities.

Offshore	An area away from the shore located in water depth equal to or greater than 200 metres.
Onshore	Located on land.
Services	Action performed by individuals or organisations (need to be improved further).
Tanzanians	United Republic of Tanzania Nationals.
Upstream Activities	Include exploration, appraisal, development and production stages of oil and gas operations of wells that recover and bring the crude oil and/or raw natural gas to the delivery point.
Value Chain	All activities involved in ensuring that the natural gas and its products are produced and ready for use by final consumers. These activities include exploration, production, processing, transportation and marketing.

MEASUREMENTS AND CONVERSION FACTORS

Symbol	Unit	Conversion
CF	cubic feet	= 0.02822 cubic metres
Pa	Atmospheric Pressure	= 760mmHg

1. INTRODUCTION

1.1. BACKGROUND

Delivering local benefits to the communities where oil and gas companies operate is no longer an option. It is a commercial necessity — and one that is increasingly mandated by law in many countries. In the new competitive landscape of diminishing supply and increasing demand for energy resources, companies in the oil and gas industry face rising expectations to do more than simply mitigate negative impacts, serve as sources of tax/royalty revenue and act as good neighbours.

To respond to the above, this policy outlines that among other things, the oil and gas industry in collaboration with the Government needs to do the following:

- (i) Develop a baseline data/information to identify the current capacity and capabilities for Tanzanians to be employed and owned companies to become suppliers;
- (ii) Develop needs assessment of the required capacities to deploy the Tanzanian experts in the oil and gas industry;
- (iii) Identify the areas in which there is no capacity and capabilities and it will not be sustainable for Tanzania to have such a category in place;
- (iv) Identify potential partner companies who support our strategy and will help deliver it; and
- (v) Identify ways in which this development will be reported, monitored, measured and evaluated through a regulated framework for local content with aim of continuous improvement.

This policy defines the Local Content as the added value brought to a host nation (and regional and local areas in that country) through the activities of the oil and gas industry. This may be measured (by project, affiliate, and/or country aggregate) and undertaken through two main attributes:

- (i) Workforce development, through *employment* and *training* of local workforce; and
- (ii) Investments in supplier development through *developing* and *procuring supplies and services locally*;

While the main National Energy Policy 2003 addresses issues pertaining to local content, related policies in oil and gas sub-sector have all emphasized broadly on enhanced local content, without detailing on the

level of participation of Tanzanian nationals and Tanzanian owned companies.

The Natural Gas Policy of 2013 came up even more precisely by anchoring itself on a principle pillar that “Natural gas resource found in Tanzania belongs to Tanzanians; and must be managed in a way that benefits the entire Tanzanian society”. This strong statement and other provisions of the Natural Gas Policy are the basis of this local content policy for the oil and gas industry.

Thus, the Local Content policy aims at:

- (i) Devising Local Content implementation strategies for the development of competitive, capable, and sustainable Local labour. The policy aims at generating and promoting adequate supply of Local workforce with the necessary knowledge and skills.
- (ii) Developing strategies for fostering the transfer of technology and knowledge. The Government will also need to invest heavily in research and development if it has to seize the high calibre opportunities in the oil and gas industry.
- (iii) setting a mechanism that will enable Tanzanians and their businesses to tap the opportunities to manage, supply goods, services and labour

1.2. CURRENT STATUS OF LOCAL CONTENT IN THE OIL AND GAS INDUSTRY IN TANZANIA

The current status of the Oil and Gas Industry in Tanzania is as described in the subsequent sub chapters:

1.2.1. Oil and Gas Resource Potentials

The Petroleum exploration activities in the country have led to the following gas discoveries:

- (i) Songo Songo in Kilwa District – Lindi – which is under exploitation for power generation in Dar es Salaam and for use in industries;
- (ii) Mnazi Bay in Mtwara – which is also under limited exploitation for power generation;
- (iii) Mkuranga, Coast region – which is under appraisal;
- (iv) Kiliwani/East SongoSongo area also under appraisal;

- (v) Deep-sea Blocks 1, 3 and 4 by Ophir/BG South East of Mafia Island and East of Mnazi Bay- some fields are still under exploration while others are under appraisal;
- (vi) Deep-sea Block-2 East of Lindi town by Statoil/ExxonMobil- some fields are still under exploration while others are under appraisal;
- (vii) Ntorya in Mtwara by Ndovu Resources/Aminex- the field is planned for appraisal.

Up to 2013, the total discovered natural gas reserves in the country amounts to 46.5 trillion cubic feet (TCF) of which about 8 TCF are from onshore fields of Songo Songo, Mnazi Bay, Mkuranga, Kiliwani North and Ntorya. The remaining resources were discovered offshore in deep waters between years 2010 and 2013.

1.2.2. Human Resource Capacity and Availability

Tanzania has few local experts in the oil and gas industry, most of whom are serving in public sector. These experts are capable of operating and maintaining the respective facilities e.g. the wells and gas processing plants in the producing gas fields of Songo Songo and Mnazi Bay.

Following the huge discoveries of natural gas, skill shortages across the industry value chain has become apparent. It is important for Tanzania to develop more local experts in the oil and gas industry who will be capable of operating and maintaining the imminent gas facilities resulting from these new discoveries. This policy aims at devising Local Content implementation strategies for the development of competitive, capable, and sustainable Local labour. The policy aims at generating and promoting adequate supply of Local workforce with the necessary knowledge and skills. The companies and government entities will be expected to work together to support the development of adequate local skills that are necessary to fulfil the strategic and operational objectives of the oil and gas sector.

1.2.3. Technology Availability and Application

Because of the technological advancement in the petroleum sector and its use of specialized input, technology and knowledge, Tanzania has adopted the use of Production Sharing Agreements (PSAs) that allows the International Oil Companies (IOCs) to transfer their technology, knowledge and finance. Tanzania hires multinational companies in the oil and gas industry on merits of their technological and financial capabilities. Apart from the PSA requirement for the IOCs to endeavour to transfer technology, Tanzania has not put in place Local Content

implementation strategies for the transfer of technology and knowledge. This Local Content Policy aims at developing strategies for fostering the transfer of technology and knowledge. The Government will also need to invest heavily in research and development if it has to seize the high calibre opportunities in the oil and gas industry.

1.2.4. Financing Options (Credits/Loans/Insurance/etc.)

Exploitation of oil and gas is a risky undertakings and capital intensive business that local financial institutions and insurance companies cannot support. Currently, all financing of operations in exploration of oil and gas in Tanzania are through risky capital paid for by either oil companies' own equity or by international multilateral banks. On the other hand, Oil Companies also insure their assets, operations and equipment with insurance brokers through reinsurance with 'A' rated International Insurance Companies.

Local businesses that provide services to oil companies are currently necessitated to raise the required operating capital through commercial loans from local commercial banks under difficult financing terms. The lack of concessionary loans for equity financing of local businesses have made expansion of local businesses to match their foreign counter-part in provision of goods and services to the oil and gas industry a difficult undertaking.

In addition, the current PSAs in force require oil companies (Contractors) to oblige their sub-contractors to carry insurance of such type and in such amount as is customary applicable in accordance with Good Oilfield Practices. Further to that, oil companies at all times are also required to effect insurance to cover any loss or damage to all assets during petroleum operations. This practice denies opportunities to local insurance companies to participate in the oil and gas industry in Tanzania.

Tanzania need to develop a mechanism to support Tanzanians to participate in the provision of goods and services in the oil and gas industry. This policy is intended to set a mechanism that will enable Tanzanians and their businesses to tap the opportunities to manage, supply goods, services and labour.

1.2.5. Current Local Content Practices

(Employment, Capacity Building & Supply of Goods and Services)

Local content requirements for the upstream operations in the oil and gas industry are currently enshrined in the Model Production Sharing Agreement (MPSA). The MPSA is the basis for the individual contracts (PSAs) signed between the operators and the Government/TPDC for exploration and production of oil and gas. The local content provisions are stipulated under Article 20 and 21 of the MPSA 2013 and are periodically improved to reflect the development in the industry.

The MPSA 2013 contains the latest local content requirements, but they are so far not yet adopted into any effective contract.

TPDC has the obligation to monitor compliance to the PSA Local Content provisions on behalf of the Ministry of Energy and Minerals in accordance to the Petroleum (Exploration and Production) Act, 1980. However, the provisions allow for alternative sourcing if the local market is unable to meet the standards and quantities demanded by the industry.



2. JUSTIFICATION/rationale FOR LOCAL CONTENT POLICY

2.1. OVERVIEW OF LOCAL CONTENT IN TANZANIA

Based on the rapid growth in its oil and gas industry, the exploration activities in large part of the country, discovery of remarkable amount of natural gas both on and off – shore are anticipated to significantly contribute to the socio – economic development of the country and certainly raise the living standard of Tanzanians. For Tanzania to attain middle income status by 2025, it has to increase its GDP per capita of about \$600 in 2014? to around \$3000 in 2025?. This can be achieved by, among others, rationalising the exploitation of its oil and gas industry resource and increased local participation in the value chain.

The Local Content Policy is intended to provide guiding principles for the participation and transformation of Tanzanians in the development of the oil and gas industry to ensure optimal benefits to Tanzanians and attain sustainable national economic development in the short, medium and long terms perspectives.

The formulation of this Policy is aligned with existing strategies as well as policies and legislation, including the National Development Vision 2025, the National Energy Policy [2003], the Empowerment Policy and Act 2004, the Natural Gas Policy, 2013, the Five Year Development Plan (2011/12 - 2015/16) and the Second National Strategy for Growth and Reduction of Poverty 2010/11 - 2014/15 (NSGRP/MKUKUTA II).

Despite of having all the above instruments, the local content policy is meant to link and enable those policies to be achievable and create the impact they were intended for.

Additionally, this Local Content Policy is a tool to implement the Natural Gas Development Road Map, 2013 (Item 7) of which objective is to develop the capacity of Tanzanians to participate strategically in the natural gas value chain. A Local Content Policy Road Map will be developed.

2.2. KEY FOCUS AREAS

The policy has identified five key focus areas to address, namely;

- Capacity Building and technology transfer;
- Participation of Tanzanians and Tanzanian owned entities;
- Procurement and usage of locally produced goods and services;
- Fabrication and manufacturing in-country; and
- Socio-economic responsibilities.

2.3. VISION AND MISSION

Vision

A developed oil and gas industry with several local firms providing goods and services, including fabrication and manufacturing as well as huge workforce employed in the entire industry to maximize benefits arising from oil and gas value chain.

Mission

To create an enabling environment and opportunities for Tanzanians to benefit from the economic wealth derived from the oil and gas industry in the course of local participation in the ownership, operations, control and management.

2.4. OBJECTIVES OF THE LOCAL CONTENT POLICY

This Policy recognizes that oil, natural gas and minerals are National resources that belong to the people of the United Republic of Tanzania. It is therefore inherent that Tanzanians must be engaged in the entire value chain in order to ensure its benefits to the entire Tanzanian society, for present and future generations.

2.4.1. Main Objective

The main objective of the Local Content Policy is to provide the guiding principles for maximum engagement of local content and local participation in the development of the oil and gas industry to ensure optimal benefits to Tanzanians.

To achieve this goal, the Government and people of Tanzania shall participate in the oil and gas industry activities and where necessary engage foreign companies in specific operations.

This main objective is supported by seven (7) specific objectives mentioned below and further elaborated under Chapter Three. The specific objectives address issues emanating from the challenges in the oil and gas industry.

2.4.2. Specific Objectives

- To develop Tanzania local businesses to become internationally competitive through the empowerment of local suppliers to meet the needs of the oil and gas industry;
- To have appropriate technology transferred to Tanzania for managing and operating the oil and gas industry;
- To enable local training institutions run requisite curriculum relevant for oil and gas industry;

- To maximize participation of skilled and unskilled Tanzanians in the oil and gas supply chain and value chain activities;
- To enhance value addition and job creation through the use of local businesses.
- To have local goods and services procured by operators in accordance with terms and conditions of their operating Licenses; and
- To support activities in the oil and gas industry based on gender issues and addressing HIV & AIDS and other infectious diseases;

3. POLICY ISSUES AND STATEMENTS

3.1. **Capacity Building and Transfer of Technology**

Issue: *Enhancing capacity of local firms to participate.*

Very few Tanzanians are currently involved in activities of the oil and gas industry. The Government is therefore committed to ensuring Tanzanians participate in this industry.

The ownership structure of businesses will be carefully scrutinized to determine the authenticity of the Tanzanian owned shares taking lessons from other countries that have faced the challenge of “shadow shareholders”. Local content will therefore aim to identify the source of manufacture of components that make each piece of equipment and service. It will entail the local content of goods excluding the value of imported parts as well as the local content of services taking into account salaries and additional taxes of Tanzanian citizens.

In the case of non-Tanzanian citizen ownership and operations, the entity will be encouraged to provide for the participation of a Tanzanian Entity with a specified minimum share of interest in the oil and gas industry value chain activities. The interest of the Tanzanian entity shall not be transferable to a non-citizen of Tanzania.

All goods, services and materials imported for upstream, midstream and downstream oil and gas industry activities will have to be of certified standards and in addition to international standards also be in accordance with Tanzanian Authorities responsible for Standards, Foods and Drugs or any other relevant authority established and operating under the Law.

Objective: To develop Tanzania local businesses to become internationally competitive through the empowerment of local suppliers to meet the needs of the oil and gas industry.

Policy Statements:

The Government shall:

- (i) Ensure every player in the oil and gas supply chain and value chain puts emphasis on local participation;
- (ii) Ensure that there will be specified thresholds for local participation in each stage in the value chain; and
- (iii) Ensure local firms have full and reasonable access to procurement opportunities.

Issue: *Adopting new and appropriate technologies.*

Technology and innovation are crucial for sustainable development of the oil and gas industry. Tanzania has depends technologies from multinational companies which are hired on merit of their technological advancement and financial capability. To address that gap, contractors, subcontractors, licensees or other allied entities shall support and facilitate local capability development aspects of the local content framework.

An Operator, while carrying out operations in the oil and gas industry is therefore expected to prepare and implement plans for the transfer of technological know-how and skills relating to oil and gas operations to Tanzanians. Emphasis may also be put on establishing in country any necessary facilities for technology transfer.

Objective: To have appropriate technology transferred to Tanzania to enable Tanzanians to manage and operate the oil and gas industry.

Policy Statements:

The Government shall:

- (i) Ensure Tanzanians have adequate capacity to manage modern or requisite technology;
- (ii) Ensure that all players in the industry prepare capacity building programmes for training of Tanzanians;
- (iii) Ensure affordable technologies from multinationals are available to develop oil and gas industry;
- (iv) Ensure adoption of relevant information technology in all oil and gas operations by local businesses; and
- (v) Ensure there is an obligation to Licensees and their subcontractors to support local capacity building by direct financing.

Issue: *Getting skilled and qualified personnel locally.*

Tanzania Universities have started offering degrees in oil and gas sciences. However, training institutions have shortage of experienced trainers and training facilities.

To enhance competency of Tanzanians in provision of full range of services required in the oil and gas industry, the local training and technical institutions will need to be supported by both Government and operators. The support will be required to develop the requisite capacity for these institutions to train Tanzanians to comparable higher levels as required by the industry.

This measure may focus on all aspects of training, including the following:

- (i) Lower skill artisanal training such as catering services, transport logistics, drill ship training etc.;
- (ii) Middle-level skill training of technicians to provide maintenance services in the oil and gas industry, etc.;
- (iii) High level skill training including general management, engineering design, procurement , business strategy development Environmental Management and Emergency preparedness, Response and Recovery Plans.

Seminars and workshops could be used to create the necessary awareness and interest of local businesses in the development of the requisite technologies, provision of technical support for the oil and gas industry and provision of support functions for the oil and gas industry. Further, Tanzania has to adopt the use of Production Sharing Agreements (PSAs) that allows the International Oil Companies (IOCs) to transfer their technology, knowledge and finance.

Objective: To enable local training institutions run requisite curriculum relevant to oil and gas industry.

Policy Statements:

The Government shall:

- (i) Ensure support to local training and technical institutions;
- (ii) Encourage the use of specialized input, technology and knowledge through adoption of the use of (PSAs) to allow participation of the International Oil Companies (IOCs)
- (iii) Ensure establishment of Centre of Excellence in oil and gas; and
- (iv) Ensure that Research and Development functions in the country are strengthened to accommodate needs of the oil and gas industry.

3.2. Participation of Tanzanians and Tanzanian Owned Entities

Issue: *Creating employment opportunities to Tanzanians.*

The oil and gas industry is a new phenomenon in Tanzania, and therefore the country has had limited exposure to the sector in terms of local expertise for both employment and provision of goods and services. Developing capacity, competence and skills at the enterprise level is crucial to enhance local content.

The Operator in the oil and gas industry is expected to prepare on job training programme in all aspects of the oil and gas industry activities, which may be carried out in or outside the country. The Contractor/Operator shall also facilitate recruitment of the same in their supply chains in Tanzania. Furthermore, such an Operator is therefore expected to ensure that opportunities are given as far as possible for the employment of Tanzanians having the requisite expertise or qualifications in the various levels of the operations.

Such programme shall provide field training to Tanzanians in all aspects and phases of petroleum activities and as many staff categories including (a) senior management positions, (b) supervisory positions, (c) skilled positions and (d) semi/unskilled positions, and shall be reassessed and revised on an annual basis (the “Annual Recruitment and Training Programme) and may include scholarships, industrial training for students and other financial support for education. Scholarships should only be given to Tanzanian nationals and should be publicly advertised.

To enhance transparency and effectiveness in the implementation of this policy direction, an operator, contractor, subcontractor, service provider etc. shall publicly advertise and give preference to the employment of citizens of Tanzania who have the requisite qualification, competence and experience required to carry out the required work. Where a foreign national is being given employment a succession plan to a Tanzanian national needs to be submitted with the work permit application.

The implementation of this succession plan will influence the extension of work permit application. This will give effect to the operator, contractor, subcontractor, service provider etc. to take every reasonable effort within a reasonable time frame to empower the Tanzanian national to be able to perform the same job that the foreign national was brought to perform.

With respect to employee training, an operator, contractor, subcontractor, service provider etc. shall prepare a scheme for the training of its Tanzanian employees both inside and outside of Tanzania including to conferences, workshops and seminars. For the effectiveness of this policy the scheme shall be submitted to the relevant Regulatory Authority for approval as part of the Annual Recruitment and Training Programme.

Objective: To maximize participation of skilled and unskilled Tanzanians in the oil and gas supply chain and value chain activities;

Policy Statements:

The Government shall:

- (i) Ensure foreign experts have limited and non renewable work permits;
- (ii) Ensure maximization of number of skilled Tanzanians in every oil and gas operation along the supply and value chains;
- (iii) Ensure deliberate preference is made for Tanzanians during recruitment;
- (iv) Ensure that certain employment cadres are reserved for Tanzanians only; and
- (v) Work with oil and gas companies and service companies to ensure implementation of approved employment and succession plans.

Issue: *Creating business opportunities to local firms.*

In order to ensure increased economic benefits to Tanzanians, all operators in the oil and gas sector, shall as far as practicable use goods and services produced by or provided in Tanzania by Tanzanian owned businesses for their operations in preference to foreign goods and services provided in Tanzania by foreign registered businesses in Tanzania or foreign businesses not registered in Tanzania.

Where Tanzanian owned businesses can meet the quality, quantity and time required but higher on price than Tanzanian owned businesses shall receive a margin of price preference as prescribed by legislation.

Where bids are being evaluated, and where bids are otherwise equal, the bid containing the highest level of Tanzanian content shall be selected. Where a foreign entity is to provide goods and services for the licensee, the foreign entity shall operate from Tanzania and partner with a Tanzanian owned and registered company.

After the commencement of operations the participation of Tanzanians for the first 3-5 years of operations shall be at least ten (10%) percent by value in the provision of goods and services or as may be prescribed by regulations.

Objective: To enhance value addition and job creation through the use of local businesses.

Policy Statements:

The Government shall:

- (i) Promote provision of quality goods and services demanded by the oil and gas industry;
- (ii) Ensure usage of local goods and services; and
- (iii) Ensure procurement of local goods and services are given preference.

3.3. Procurement of Locally Produced Goods and Services

Issue: *Creating market opportunities for local goods and services.*

The development of an oil and gas industry in Tanzania brings many challenges that must be overcome as well as opportunities that should be utilized. Legislative and regulatory frameworks will need to be in place in administering nationwide oil and gas development. This will enhance enforcement and compliance in oil and gas production, processing, marketing, standards, testing, and certification, right to access and use oil and gas products.

To date, Tanzania has fairly little Local Content requirements in procurement notice. Local Content commitments have been offered by interested parties in their respective bids. Hence, such offer could not be subjected to monitoring or measurable criteria.

However, it is a global tendency now to set Local Content minimum and maximum percentages in the procurement notice for the phases of exploration, development and other operations, as well as minimum percentages for items defined by the bidding party.

The overall aim is to increase value addition to Tanzanian commodities by introducing similar measures as practised elsewhere in the world.

Objective: To enhance the value addition and job creation through use of local firms to provide goods and services.

Policy Statements:

The Government shall:

- (i) Ensure a compulsory Local Content requirement in every Invitation to Bid;
- (ii) Ensure that contractors and Lead Sub Contractors manage risks of local businesses to allow their participation; and
- (iii) Ensure transparency, value for money and competitiveness in every procurement process undertaken by Contractors and sub-contractors.

3.4. In-country Fabrication and Manufacturing.

Issue: *Increasing local capacity to weld, fabricate, manufacture gadgets, equipment, service and maintenance for the oil and gas related installations.*

In quest of enhancing *the level of use of Tanzanian local expertise, goods and services, people, businesses and financing in oil and gas activities*, we need to adopt an industrialization strategy in order to capitalize on the opportunities brought about by the oil and gas industry.

It is understood that much effort is needed to build sufficient capacity for the locals to supply adequate inputs to satisfy the industry demand. However, it is also believed that the best way to ensure success and quickly, is to do it “in country” first, and doing it with locals, will naturally follow. This belief, which has been realized by our predecessors in the oil and gas industry, provide comfort to Tanzania to pursue the same.

In view of that, sufficient thrust need to be given in promoting all metal related works including in-country manufacturing, fabrication, welding and assembling.

Objective: To maximize in-country fabrication, welding, assembling, manufacturing and repairing works.

Policy Statements:

The Government shall:

- (i) Ensure availability of equity financing to local business engaging in country fabrication and manufacturing;
- (ii) Ensure that Tanzanian with required skills are available to participate in fabrication and manufacturing;
- (iii) Encourage multinationals to bring their global oilfield services and equipment to Tanzania; and
- (iv) Ensure development of consolidated domestic fabrication industry.

3.5. Socio-economic Responsibilities

Issue: *Addressing gender issues and HIV & AIDS.*

The Government provides equal opportunities to all citizens of the country. However, most of such opportunities are usually dominated by men. Active participation of female in the oil and gas industry is thus encouraged.

HIV and AIDS are associated with other infectious diseases which have greatly affected socio-economic development and livelihoods. Like many other large scale projects, oil and gas industry projects will attract the concentration of people looking for employment and other related activities. In the process, this may escalate the HIV and AIDS infections. Awareness and education on HIV and AIDS to all stakeholders is important to reduce its impacts on communities surrounding such projects.

Objective: To support activities in the oil and gas industry based on gender issues and addressing HIV & AIDS and other infectious diseases.

Policy Statements:

The Government shall:

- (i) Ensure that all projects in the oil and gas value chain including, training opportunities are based on gender equality and equity; and
- (ii) Work with IOC to facilitate provision of preventive and curative education on HIV & AIDS and other infectious diseases to stakeholders in the oil and gas industry.

Issue: *Maintaining safe working conditions and the environment.*

Oil and gas operations may have adverse effects on the environment, health and safety of people. Adherence to good industry standards and practices will contribute significantly to preventing or mitigating such effects. It is important to plan for remedial measures prior to any operation. Regulations of these operations are necessary to ensure that activities in the oil and gas industry are conducted taking environment, health and safety issues into serious consideration.

High level of mechanization limits the number of jobs created as they often require specialized labour that may not be available. On the other hand, pure manual labour may not be economically competitive, environmentally sustainable or safe. However, a properly designed oil and gas industry is expected to create jobs for both skilled and unskilled labour-force in Tanzania.

Objective: To ensure compliance with Health, Safety and Environment standards in the oil and gas industry.

Policy Statements:

The Government shall:

- (i) Ensure that operators in the oil and gas industry adhere to statutory and international best practices on environment management and protection; and
- (ii) Ensure that the industry establish and adopt sound environmental management systems.

Issue: *Maximizing benefits to the local communities.*

The primary business reasons for developing Local local content are to secure:

1. Social License to operate and meet in local community expectations.
2. Sustainable Development – Contribute to the growth and to the development of local communities to achieve a mutually beneficial and sustainable environment for carrying out Oil and Gas operations.

The aim is to facilitate local community business development, contribute to human capability development and stimulate productivity in the local community economy. The scope will be to as far as possible to procure materials and contracting of services locally; hiring and

development of the local community personnel; improving the capacity and capability of for sustainable commercial benefits for the communities in which the oil and gas projects operate.

Objective: To substantially improve Corporate Social Responsibility in communities neighboring oil and gas facilities and operations.

Policy Statements:

The Government shall:

- (i) Ensure that there is a contractual obligation to all investors and contractor in the natural gas activities to undertake locally prioritised community development programmes;
- (ii) Ensure companies in the oil and gas industry submit credible Corporate Social Responsibilities action plans to the appropriate Authority ; and
- (iii) Ensure availability of monitoring mechanism that aim to achieve local priorities supported by CSR in a responsible and value for money approach

4. FISCAL, LEGAL AND REGULATORY FRAMEWORK

4.1. FISCAL, LEGAL AND REGULATORY FRAMEWORK

In order to give effect to the implementation of the local content and local participation policy, the policy directions given herein need to be legislated by Regulations and other such legal instruments. This may require strengthening of fiscal, legal and regulatory framework to comprehensively orient the governance of the natural gas industry towards local content objectives. Therefore, the development of an oil and gas industry in Tanzania brings many challenges that must be overcome as well as opportunities that should be utilized. Legislative and regulatory frameworks will need to be in place in administering nationwide oil and gas development. This will enhance enforcement and compliance in oil and gas production, processing, marketing, standards, testing, and certification, right to access and use oil and gas products. The enactment and amendment of specific legislations to address the situation is inevitable including, but not limited to Local Content Act, Natural Gas Act, Natural Gas Revenue Management Act, Income Tax Act (Cap. 332) and EWURA Act (Cap. 414), PEPA 1980, MPSA 2012, Petroleum Act 2008.

4.2. FISCAL REGIME

Fiscal regime is defined differently for upstream and downstream operations in the oil and gas industry. For the purpose of local content and local participation, the two regimes will be defined precisely by the relevant regulations established pursuant to the governing laws. However, the regulations may establish preferential rates for the purpose of promoting and supporting Tanzanian SMEs and individuals participating in the industry.

The Minister shall consult with relevant Government agencies to propose fiscal incentives to assist:

- i. foreign companies which aim to develop technological capacity and skills of citizens; and
- ii. local Tanzanian companies which establish factories and production units in the country.

4.3. LEGAL AND REGULATORY FRAMEWORK

A dedicated Petroleum Regulatory Authority, with the assistance of independent National Local Content Committee, is foreseen. This will be mandated to oversee and ensure the full implementation of the local content and local participation policy.

The National Local Content Committee shall be comprised of competent and able public and private sector stakeholders that may include:

- (i) Tanzania Government relevant Ministries, Departments and Agencies;
- (ii) Non-Governmental Organizations;
- (iii) Representative of Petroleum industry Operators, Non-Operators, Contractors and Sub- contractors; and
- (iv) Representatives from the Private Sector



5. INSTITUTIONAL FRAMEWORK, MONITORING AND EVALUATION

5.1. INSTITUTIONAL ROLES AND FRAMEWORK

The successful implementation of the local content policy and other national development policies depends crucially on the institutional framework that is in place to develop tools for operationalizing, enforcing, monitoring and evaluation to ensure desired outcomes. The institutional framework articulates major roles of key institutions direction towards a transformed economy and sustainable growth and development. The key institutions include Central Government, Local Government Authorities, National Oil and Gas Company, Regulatory Authority, Central Bank of Tanzania (BoT), Private Sector, Academic and Research Institutions, Media, Civil Societies and Communities.

5.1.1 Role of the Government

The rapid growth in the oil and gas industry in Tanzania requires the involvement of the Government in directing resources and leading other players towards a desired development direction. The Government has vowed to build the gas economy in Tanzania which can only flourish with the Tanzanians participating adequately in the oil and gas business. The role of the Government shall therefore be:

- (i) To prepare and periodically review Policies, Strategies, Acts and Regulation as well as to administer their implementation;
- (ii) To attract foreign direct investment in capital intensive and technologically demanding oil and gas projects;
- (iii) To facilitate national enterprises and Tanzanians to participate actively in the oil and gas industry;
- (iv) To strengthen the capacity of Government's institutions responsible for the oil and gas industry;
- (v) To strengthen legal and regulatory framework for oil and gas industry; and
- (vi) To set targets and monitor results of oil and gas projects and programmes.

5.1.2 The Role of the Local Government Authority

Local Government Authorities are important link between Central Government and Communities. In liaison with the relevant Regulatory Authority and the Local Content Committee, the role of Local Government Authorities in the oil and gas activities shall be:

- (i) To administer and enforce Acts and Regulations;
- (ii) To prepare guidelines for Local Content practices within their localities;
- (iii) To oversee the implementation of the Local Content regulations; and
- (iv) To provide awareness to the public on oil and gas projects in their areas.

5.1.3 The Role of the National Oil and Gas Company

The designated National Oil and Gas Company (NOC) will have to take new roles and responsibilities in the light of new developments and reforms in the oil and gas industry. Oil and gas activities including commercial and regulatory roles shall be carried out separately by relevant entities. The role of the NOC shall therefore include:

- (i) To acquire mandatory participating interest in each license issued in the upstream activities at a percentage as may be determined by the relevant authority.
- (ii) To demonstrate full implementation of the local content principles and regulations as stipulated herein and in the subsequent legislations.
- (iii) The established Upstream regulatory Authority shall regulate and enforce implementation of the general principles in this Policy Framework.

As regards to mid - and down-stream natural gas activities, the National Oil and Gas Company shall work in close liaison with Downstream regulatory Authorities and the National Local Content Committee established under section 5.1.11.

5.1.4 The Role of the Regulatory Authority

The potential size of the natural gas resources in Tanzania and its expected multiple uses require a robust regulatory regime. Depending on prudent industry practice, the Upstream and Downstream segments will be regulated separately, but compliance to local content requirements shall be mandatory. The role of the Regulatory Authorities, in close liaison with the local content committee shall, therefore, include:

- (i) To enforce Acts and Regulations;
- (ii) To establish standards for goods and services in their jurisdiction;
- (iii) To regulate rates and charges in according to prudent industry practices;

- (iv) To monitor and evaluate performance in the oil and gas activities including levels of investment, cost of services and availability of regulated services; and
- (v) To facilitate the resolution of complaints and disputes.
- (vi) To perform other functions conferred to them by the relevant legislation;

5.1.5 The Role of the Central Bank of Tanzania

The primary responsibility of the Central Bank of Tanzania (BoT) is to establish monetary conditions conducive to price stability over time. It is expected that the oil and gas industry may fuel inflation in the country if conducive conditions are not put in place timely.

With respect to local content in the oil and gas industry, the BoT, in addition to managing and administering the Natural Gas Revenue Fund, BOT will release and monitor expenditure of the requested and approved funds for the local content purpose.

5.1.6 The Role of the Private Sector

Private sector players are important in implementing local content regulations. The Private Sector will continue to work with the Government to promote, build capacity and facilitate PPP projects or other arrangements in the oil and gas value chain. The sector is expected to champion compliance in local content regulations.

As a way of good industry practice and with respect to this policy, the private sector shall:

- (i) Invest in business improvement and training to enhance quality; Health, Safety and Environment (HSE); employment practices and environmental impact.
- (ii) Avoid opportunistic pricing which may increase project costs
- (iii) Create non-state sponsored industry groups to improve knowledge and capabilities
- (iv) Be transparent.

5.1.7 The Role of the Academic and Research Institutions

Academic and Research Institutions are important for development of the oil and gas industry. Development of the industry has increased demand for knowledge and skills in Tanzania. In order to meet the demand, the Government has taken measures to introduce and expand training in relevant fields in the oil and gas industry. These institutions will work with Government and IOCs to promote education, training

and research in the oil and gas industry, recruitment and retention of the human resources required in the industry.

5.1.8 The Role of the NGOs and Civil Societies

This Policy recognizes the role of NGOs and other civil society organisations in enhancing advocacy, mobilization and dialogue with communities, investors and the Government. These entities will contribute to improve HSE and information dissemination related to oil and gas activities, and to collaborate with Government in designing, monitoring and implementing socio-economic programmes related to the natural gas industry.

NGOs are expected to be instrumental in advocating opportunities in the oil and gas by implementing awareness programmes to the public.

5.1.9 The Role of the Media

The role of the media in providing accurate and balanced information on the oil and gas industry issues to the public is important. In this regard, the Media need to strengthen their capacity in understanding the local content issues (including Policy, regulations, practices, opportunities, risks) in order to deliver information accurately and timely. This will increase public awareness and involvement, transparency and accountability on matters pertaining to the local content in the oil and gas industry.

5.1.10 The Role of the Community

Local communities have a great opportunity to participate in activities related to oil and gas operations. However, they need to be prepared in terms of building requisite capacity to seize opportunities arising in the industry. Hence the community has to seek information and make use of it in order to participate fully and timely. The other crucial role of the community is to safeguard the integrity of oil and gas installations erected in their neighbourhood and beyond since they are meant to benefit them.

5.2. ESTABLISHMENT OF THE NATIONAL LOCAL CONTENT COMMITTEE

In order to effectively coordinate amongst the different institutions and stakeholders on the implementation of the policy, a National Local Content Committee shall be established. This will be a dedicated and independent National Local Content Committee mandated to oversee and ensure the full implementation of the local content policy.

The National Local Content Committee shall be chaired by Ministry responsible for oil and gas development and will be comprised of public and private sector stakeholders, including:

- (i) Ministry Responsible for Oil and Gas
- (ii) Ministry of Trade and Industry
- (iii) Attorney General
- (iv) Ministry of Finance
- (v) Ministry of Labour and Employment
- (vi) President office Policy Reform Unit
- (vii) Prime Ministry Office
- (viii) Tanzania Procurement Authority
- (ix) Tanzania Revenue Authority
- (x) Tanzania Investment Centre
- (xi) Ministry of Home Affairs-Immigration
- (xii) Tanzania Private Sector Foundation
- (xiii) Tanzania Chamber of Commerce, Industry & Agriculture (TCCIA)
- (xiv) Two Representatives from Civil Society

5.2.1. Roles of the National Local Content Committee

The committee shall have the following roles and responsibilities;

- (i) Supervise, coordinate and monitor the implementation of this policy in liaison with sector operators and institutions,
- (ii) Appraise, evaluate and endorse for approval the local content plans and reports submitted by the operators. The plans submitted shall include, but may not be limited to; feasible Business Plan, Capital Plan, Procurement Plan, Imports Plan, Employment and succession Plan and Capacity Building Plan.
- (iii) Coordinate with the private sector to enable Tanzanians to take advantage of the available opportunities,

5.3. MONITORING AND EVALUATION FRAMEWORK

The local content Policy M & E Plan shall be developed through a consultative process as part of the Policy Implementation Strategy, and outline milestones and key performance indicators under each of the specific objectives of the Policy. Specifically, the Plan shall be a tool to

manage the process of monitoring, evaluating and reporting progress towards the objectives, and serve the following main functions:

- (i) Explain in detail how and what the Ministry and other Government institution will (a) monitor to determine whether implementation is on track to achieve the intended Policy objectives, and (b) evaluate / assess the adequacy of implementation strategies, provide lessons learned, determine cost effectiveness and estimate the impact of individual involvement;
- (ii) Develop and provide all indicators that must be reported to the stakeholders on regular basis;
- (iv) Provide early warning signals about the required development and subsequent change and/or review; and
- (v) Serve as a communication tool, so that all stakeholders clearly understand the objectives being sought through this Policy and Government's actions emanating thereunder.

5.3.1. Institutional Arrangement for Monitoring and Evaluation System

The institutional framework for monitoring and evaluation consists of the institutional organizational set-up and its environment of operation. It covers the framework for reporting, supporting and coordination systems for monitoring and evaluation.

This Policy has been developed with a primary focus on one main objective: The main objective of the Local Content Policy is to provide the guiding principles for maximum engagement of local content and local participation in the development of the oil and gas industry to ensure optimal benefits to Tanzanians.

Its implementation is therefore expected to generate impacts over and beyond those emanating from existing programmes and projects. It is this understanding that underpins the need for a distinct Monitoring and Evaluation (M & E) Framework to be applied in conjunction with this Policy. The framework shall seek to answer the question, "has implementation of the local content Policy met the objectives and benchmarks as outlined in this Policy document?"

The multi-dimensional challenges and opportunities from the emerging natural gas industry require systematic monitoring and evaluation framework for Policy implementation and performance assessment. The monitoring process will generate and supply data and information on the progress made in the implementation processes while evaluation

will determine the relevance, effectiveness, efficiency, sustainability and impact of the Policy.

While the main responsibility for monitoring and evaluation framework will be vested in the Ministry responsible for oil and gas, a coordination mechanism will be established to allow for multi-stakeholder consultations involving key stakeholders including MDAs (including Ministries responsible for finance, law, security, safety and environment), LGAs, Members of Parliament, the Private Sector, NGOs, FBOs, CSOs, CBOs, Media and DPs.

5.3.2. Monitoring and Evaluation Indicators

A list of smart indicators will be developed to meet information needs of different stakeholders at all levels. They will be reviewed from time to time to meet additional information requirements necessitated by the new developments. More specifically, baseline data will be collected as benchmark of the Policy implementation tracking.

At each particular implementation period, monitoring and evaluation will be undertaken to review the implementation of the strategy. The general objective of evaluation is to determine the relevance, effectiveness and impact of Policy on the social, political and economic development of the country. Both qualitative and quantitative indicators will be analyzed.

5.3.3. Monitoring and Evaluation Tools and Deliverables

The output and deliverables of the local content Policy 2014 will be:

- (i) Local Content Regulations
- (ii) Implementation Strategy
- (iii) The National Local Content Committee.
- (iv) Communication Strategy with an interactive element to facilitate ongoing feedback from stakeholders;
- (v) Progress Report, using Monitoring and Evaluation System output to both indicate progress and update on implementation of the Local Content Policy; and
- (vi) Analytical report of different studies (including feasibility and researches) undertaken.

6. The way forward

Upon finalization of the approval process, the relevant provisions shall be reflected into the draft Gas Act and subsequently local content regulations be prepared as per the Gas Act.

Launching and implementation of the Local Content policy shall take place before negotiation of the major contracts relating to development of the gas from deep sea.