

EXTRACTIVE INDUSTRY IN EAST AFRICA

What are the stakes for citizens and governments?

Govt and investors balance profit against environment in oil and gas sector



OXFAM



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What is Oxfam and what does it do in the Horn and East African region? Why is it important to highlight the impact of the organisation's focus on the extractive industry.

Oxfam is a global movement of people, working together to end the injustice of poverty. Through our work and with our partners, we aim to find practical, innovative ways which would help end poverty in the communities we work in.

Our over 50 years' experience working in the Horn, East, and Central Africa (HECA) region has enabled us build strong partnerships and relationships with local and national organisations and earn the trust of governments and the people we work with. We currently work in Burundi, DR Congo, Ethiopia, Kenya, Rwanda, South Sudan, Somalia, Sudan, Tanzania, and Uganda.

In the extractives industry, we work to promote Natural Resource Justice, by ensuring that citizens and governments in countries rich in oil, gas and minerals get a fair share of revenues from their resources

and invest in areas that have greater capacity to reduce poverty and inequality such as health and education. That includes promoting meaningful participation of citizens in decision making and ensuring the respect for rights of communities affected by extractive projects and protection of the environment.

How valuable is the extractive industry in the countries you operate in and what is its true economic worth?

While most countries lack accurate data on the quantities and economic value of their minerals, a number of oil and gas projects in different countries have been found to be commercially viable. Huge gas deposits in southern Tanzania, petroleum in northern Kenya and in Uganda's Albertine graben have created large expectations for citizens and governments. Somalia recently embarked on a move to attract bids to tap offshore oil reserves while DR Congo remains one of the most endowed countries globally. Exploration efforts are underway in almost all countries in this region. Amidst increasing debt levels and limited opportunities for domestic revenue mobilisation, governments increasingly look to oil, gas and minerals as potential catalysts for attracting foreign direct investment and fulfilling their growth aspirations.

To realise these aspirations however, oil, gas and mining deals have to be fair, to guarantee revenues to states, which governments could then invest in the people – social services such health and education.

Oxfam and partners have interrogated some of those deals. – the contracts signed and underlying fiscal terms – to ensure States are getting a fair share of revenues. Our findings reveal that countries still struggle to secure fair deals. Also, international tax frameworks such as Double Tax Agreements take away some taxing rights, which hamstringing countries' ability to earn fair shares of revenues from their resources. Some of our recommendations on the policy reforms needed to deliver fair share of revenues have been well received by governments and civil actors.

How has the Covid-19 pandemic affected the region's extractive industry?

It has led to a dramatic drop in demand and prices of oil, gas and minerals, reducing foreign exchange inflows. For example, Uganda's earnings from gold exports are reported to have declined for the first time in three years in response to the pandemic.

The profitability of oil and gas projects has come into question. Some companies have delayed decisions to invest, some projects have been put on hold, some have also used the pandemic to push for tax reductions or deferment and others even declared force majeure. As investors review their investment strategies to maximize returns, frontier countries in this region might find it harder to attract foreign capital. This could lead to a race-to-the-bottom as countries compete to offer incentives to investors but also weakens governments'

negotiating powers. Public scrutiny of deals made in the current circumstances will be critical so that benefits do not elude citizens.

It's also a reminder for countries to re-interrogate their macroeconomic trajectories and avoid building reliance on extractive industries but rather to diversify their plans.

What are some of the governance issues emerging from the extractive industry projects in the region, and how are they being dealt with?

Industry activities have led to pressure on community land and triggered human rights violation. For example, Oxfam has documented actual and potential violation of communities' land rights along the route of the proposed East African Crude Oil Pipelines. We have also documented inadequacies in adherence to the principle of Free, Prior and Informed Consent

Regional governments must establish frequent gender audits to expose these disparities and put in place mechanisms that will address specific impacts of projects on women and vulnerable communities

(FPIC) during exploration efforts in Turkana region in Kenya. Construction of the Mtwara – Dar es Salaam Natural Gas Pipeline has also impacted community land rights in Lindi and Mtwara. Governments and private sector must undertake comprehensive analysis of the social and environmental impacts of these projects and disclose all their reports in accessible and usable formats. Deliberate efforts should be made to understand the specific impacts of projects on women and ensure their voices are heard in these processes.

What can be done to entrench transparency in public management of revenues from the industry so that ordinary citizens benefit from the accruing revenues?

Disclosing contracts for oil, gas and mining projects would enable citizens interrogate who is benefiting and whether they stand to benefit from their resources. Transparency should extend to procurement processes as well as frameworks such as Environmental Impact Assessment reports.

Most countries in this region still score low on governance indices such as Resource Governance Index and Corruption Perception Index. While DRC, Tanzania and recently Uganda are members of the Extractive Industries Transparency Initiative (EITI), realization of transparency and accountability has come at varied levels.

Governments must strengthen their capacity to audit extractive industry projects and make their findings accessible and usable that citizens can have a say in how the revenues earned are used.

What is expected of the various stakeholders to make the industry more trans-

parent and accountable?

The multinationals engaged in the region's oil and gas should work with governments to champion transparency and accountability. Civil society and the media play a key role in promoting independent oversight and championing public interests. Regional bodies such as the East African Community should use their convening power to facilitate development and adoption of policies and frameworks that guarantee transparency and accountability in the region's extractive industry.

It is five years since the signing of the Paris Accord to tackle climate change. How is the region's extractive industry addressing climate change?

Unfortunately, it is people living in the poorest parts of the world that suffer most from the impacts of climate change. If we are to follow the principle of Common but Differentiated Responsibility, then the major polluting states, who bear the most responsibility for emitting greenhouse gases, should lead efforts to curb emissions. That shouldn't give new fossil fuel producers, like countries in East Africa, a free pass as oil and gas projects in the region are and will contribute to global emissions and to the climate crisis.

East African countries have committed to adapt to a changing climate (adaptation) and funding mechanisms but are often silent on the expected aggregated GHG emitted from oil and gas projects. The challenge is how to balance what revenues governments need to offer services to citizens versus fulfilling international to meet the Paris Accord goals.

It's a call between financially lucrative but environmentally damning choices, which explains the controversy around Kenya's Lamu coal plant.

Generally, what is the outlook of the region's extractive industry in the next five years?

Although still nascent, the industry is dogged by uncertainty. A recent report from the Climate Policy Institute suggests that the viability of oil as a driver of economic development in Uganda will fall as governments round the world ratchet up their climate "ambition" and as global financial markets accelerate the reallocation of capital away from fossil fuels. Some oil, gas and mining projects may not fetch as much revenue as previously projected.

Governments' abilities to negotiate fair deals might diminish as exploration companies cut back on investment particularly in frontier regions like ours.

Artisanal and small scale mining remain a key feature of the mining sector but must be regulated to fight the black markets that limit and deny governments efforts to collect revenue.

The stakes are high for producer countries: Having the right fiscal framework and vigilance to ensure compliance with the highest social and environmental standards has never been more critical.