Executive Summary

Oil in Uganda
International Lessons for Success

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The oil era is dawning in Uganda. It has the potential to accelerate development and drive the country’s transformation into a regional – and even global – economic player. But oil also brings risks – of the erosion of the relationship between people and government, of economic distortion, of increased corruption and of internal tensions. The 'resource curse' is a spectre that all Ugandans wish to avoid. A well-informed, inclusive national conversation about the management options available to Uganda is vital in generating broad-based political consensus robust enough to stand up to the pressures that oil will inevitably bring.

Uganda has time on its side. Though geography and the technical challenges of extracting ‘waxy’ on-shore oil mean that production has not yet begun, and full capacity is unlikely to be reached before 2020, the relatively slow pace of oil development is an advantage as well as a frustration. Unlike Ghana, for instance, where commercial production began just three years after discovery, Uganda has ample time to prepare for the coming of oil. The experiences of other resource-producing countries may offer important lessons.

Debate over the management of Uganda’s oil is already intense in the country, and has been the subject of considerable controversy. It is incumbent on all stakeholders – government, opposition and civil society alike – to rise above the politics of today and look to the long term. Oil will be a central feature of Uganda for decades. Decisions taken now will shape the lives of future generations. The successful navigation of the challenges of oil would leave a glowing legacy for Uganda’s current generation of leaders.

Avoiding the resource curse

The 'resource curse' has generated an enormous body of learning, with its symptoms extensively documented. A long list of potential treatments has been laid out, including public oversight bodies, regulatory checks and balances, and mechanisms to control spending. The most appropriate options for Uganda are already subject to lively debate. However, a more fundamental point is that measures are of little use unless they are implemented and adhered to. This depends as much on administrative effectiveness, respect for the rules and public trust in government as on the nature of the regulatory framework chosen. An oft-repeated mantra is that good governance is vital in avoiding the resource curse.

But 'governance' is a difficult concept to pin down. All too often, discussions of governance rely on technical criteria, which risks oversimplifying or misrepresenting the complexities of politics and society in a given state. Put simply, no two countries are alike, and the measures that have worked in warding off the resource curse in one may not work elsewhere. So in thinking about Uganda’s options for the management of the oil sector, it is not enough simply to underline a set
of principles – transparency, oversight and so on – or list preferred policies for oil management, without first considering their appropriateness or potential impact in Uganda.

So the first step in drawing lessons from the experiences of other oil-producing states is to broaden the idea of ‘governance’, away from arid technicalities towards a more rounded understanding of the social, political and economic dynamics that may be most important in successful resource management. Once identified, these dynamics would provide a real-world context for an informed discussion of the policy options open to Uganda. Recent analysis of countries that have been successful in their management of natural resources has begun to do just that.

International lessons for Uganda

Norway, Chile, Botswana and Indonesia are often cited as countries that have been able to exploit their natural resources sustainably and to the benefit of all. Despite the deep and obvious differences between them, there seem to be four broad points of commonality. They are:

- A widely shared commitment to stability and growth;
- A capable and empowered cadre of technical advisers and specialists;
- Strong social constituencies able to moderate and inform political debate; and
- Widespread popular buy-in to spending priorities.

These four dynamics offer a useful starting point for discussion. First, how does Uganda measure up? Its painful past experiences of conflict and social division mean that there is a widespread commitment to a peaceful and harmonious future. Ugandans are likewise united by a shared desire for growth and prosperity. Uganda also has an effective civil service, and has built up a reservoir of knowledge on oil issues during the initial phases of oil exploration. Thus the first two dynamics may offer significant points of strength for the country.

The second two dynamics are perhaps less well developed. Though Uganda has an active and vocal civil society and media, one less positive legacy of past conflicts has been to undermine the position of social actors able to offer a moderate, non-political perspective on questions of national importance, such as traditional leaders, religious authorities or business associations. Equally, while Uganda is now a multi-party democracy, its institutions and traditions are still relatively young. Combined with the reality of a scattered and largely rural population, this means that many may feel remote from the process of decision-making, and therefore not necessarily fully engaged in a shared vision for spending oil revenues. So while Uganda in many ways has relatively strong foundations for meeting the challenges of the coming oil era, there are also areas in which progress is needed.

More importantly, these four dynamics also offer a constructive lens through which to assess the options open to Uganda in managing its oil. It is here that lessons can be drawn from international experiences of natural resource management, through an assessment of the likely impact of various policies on the four broad dynamics identified above.

A shared commitment to stability and growth

Though Uganda is relatively harmonious, it has numerous latent divisions along ethnic, cultural, religious and regional lines. The biggest threat that oil poses to this harmony would come from
allowing rumour and speculation to dominate, notably over how revenues are allocated. It is for this reason that transparency is vital. With accurate, reliable information, Ugandans will be able to transcend their day-to-day differences and remain committed to a peaceful, prosperous future.

There are many examples from around the world of how transparency might be ensured. Ghana’s Public Interest Accountability Committee is a legally constituted body that brings together representatives of academia, NGOs, churches and traditional authorities to monitor and report on the oil sector. Chad set up a Collège de Contrôle to fulfil a similar function. On a more local level, the Prince William Sound Citizen’s Advisory Committee in Alaska was established to ensure public understanding and oversight of the oil industry after a major oil spill.

**Capable and empowered technocrats**

Uganda has built up considerable technical knowledge in the preliminary phases of oil development, notably in the Petroleum Exploration and Production Department of the Ministry of Energy. But the management of the oil sector is set to change with oil-related legislation currently before parliament or just passed. These changes bring risks that the role of Uganda’s technocrats will be confused, overshadowed by the involvement of political actors or subverted.

In Norway, responsibility for management of the oil sector is split between a national oil company, a petroleum authority and the government. It is the model that Uganda seems set to follow. But while the checks and balances built into such a system are positive, the complexity of setting up such an institutionally heavy system risks confusion over roles, and expense. It will be important for Uganda to monitor the effectiveness of its systems carefully, to ensure that expert voices are not drowned out. It may equally be worth considering the example of Ghana and Chile, both of which have set up independent advisory bodies to help government with prudent investment of revenues.

**Strong social voices**

The process of rebuilding Uganda’s politics and society after years of war and misgovernment was driven by the National Resistance Movement. It has achieved a transformation of the country, including economic and social stability unparalleled in Uganda’s post-independence history. The country is now a plural democracy, with numerous opposition parties. But challenges remain, not least the need for confident and well-respected social voices to emerge that are able to rise above the short-term political imperatives that are normal in any democracy, and instead offer a longer-term, nuanced view. Though there are long-established social actors in Uganda, from churches to traditional kingdoms and NGOs, they are sometimes controversial and potentially divisive. Uganda’s private sector, though growing, remains nascent.

Thus one of the biggest challenges in coming years will be ensuring that strong social actors emerge. They should not be considered as acting in opposition to government – which will remain the task of political parties – but instead be able to articulate alternative views and perspectives on the overall direction of the country. Notably, this is likely to demand the emergence of a commercial class. Given Uganda’s natural advantages, notably fertile land and a large rural population, it is very likely that agriculture will play a central role. But agriculture, along with all export-led business, is very sensitive to currency appreciation, one of the possible results of
large-scale oil-related spending – the so-called 'Dutch Disease'. It is for this reason that some form of mechanism to regulate spending is extremely important. Such mechanisms take many forms around the world, from sovereign wealth funds of the type instituted in Norway to fiscal rules limiting the percentage of revenues governments are able to spend.

A widely shared vision for development

Uganda is in the advantageous position of being an established democracy, with enshrined legal and media freedoms. But the fact that much decision-making remains relatively centralized and the population is spread across remote rural communities means that many may feel disconnected from a collective development goal. The National Development Plan and commitment to public consultation are indications that the government is committed to communicating its vision. The recently announced ‘Vision 2040’ is a further positive step. But the risk remains that oil spending will be poorly understood and therefore subject to disagreement, rumour and possible division.

There are a number of initiatives from around the world to enhance popular buy-in, from regular public consultation on oil in Trinidad and Tobago and Liberia, to an enhanced role for parliament in approving spending in Botswana and East Timor, an annual public debate on oil policy as seen in São Tomé and Príncipe, or the management of the oil Heritage Fund by a committee of the State Assembly of the province of Alberta in Canada. Many parliaments around the world, including those in Azerbaijan, Egypt and Sierra Leone, also have the right to ratify all new oil-related contracts.

Conclusions

The ‘resource curse’ is not inevitable. Uganda has time on its side but it must not waste it. The debate on oil must move beyond the politics of the present and look to the long term. Oil will be central to Uganda for decades to come. It is incumbent on today’s leaders in government, opposition and civil society alike to work together to ensure a bright future for generations to come.

Lessons can be learned from those countries that have successfully managed natural resources, as well as those that have suffered from their mismanagement. Transparency matters if Uganda’s social cohesion is going to be maintained. A well-informed national conversation on how to balance spending with saving is vital to the health of the agricultural sector and key to a positive future. The need to protect technical advice from political influence is vital across all governments. And a population that understands how revenues are being spent is more likely to work with government rather than against it, building a positive feedback mechanism between people and the state that can act as a bulwark against future abuses.

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