Oil in Uganda

International Lessons for Success

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Ben Shepherd is a researcher, analyst and writer who has specialized on the Great Lakes region since 2002. He has worked for the All Party Parliamentary Group on the Great Lakes region at the UK Parliament, as an analyst for the Foreign and Commonwealth Office (2004–11), and as a research fellow in International Relations at the London School of Economics. He is currently an independent consultant and an Associate Fellow of the Africa Programme at Chatham House. He is based in London.

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Executive Summary

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.[1] 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.

1 See National Planning Authority, 'Vision 2040', http://www.npa.ug/index.php?option=com_content&task=view&id=43&Itemid=52.

1 Introduction

The oil era is dawning in Uganda, for good or ill. It will bring both opportunity and risk. The revenues that will flow from oil have the potential to drive domestic development and transform the country into a significant economic actor, both regionally and globally. Success could secure a glowing legacy for the current generation of leaders. But there also is a danger that oil instead undermines progress, as the symptoms of the 'resource curse' take hold. Uganda stands at a crossroads. Decisions on management of the nascent oil sector, made now and in the immediate future, will play a large role in dictating the path that Uganda takes for generations.

The risks that natural resources bring have long been recognized. Studies have generated a considerable body of analysis and information, including identifying steps that can be taken to minimize these risks, from transparency mechanisms to stabilization funds. Yet the list of countries that have suffered as a result of their resources continues to grow. In recent years Chad, for instance, developed a regulatory framework for its new oil industry in consultation with the best available international expertise, yet it seems nevertheless to have fallen into many of the widely anticipated traps.

The central problem is that, in spite of a broadly shared understanding of the risks, the necessary responses are frequently not implemented or respected. For instance, good governance has been repeatedly identified as the key to the successful management of natural resources, particularly the governance conditions at the moment when production begins. There is thus an obvious imperative to improve governance conditions, from oversight to anti-corruption, ideally in advance of large-scale production. Yet it is precisely in those states that are most at risk – where governance is weakest – that these vital steps towards reinforcing governance capacity are least likely to be taken. In short, comprehensive lesson-learning and the best designed management framework will not be effective in avoiding the resource curse in the absence of sufficient political or social will to make sure that action is taken and the rules are adhered to.

It is therefore not sufficient simply to list the technical steps that new oil- or resource-producing states need to take, notably on governance. Instead, this report attempts to explain *why* such steps are important in a way that it is hoped will stimulate fruitful discussion among all Ugandan stakeholders. And instead of listing the risks, it looks at success stories, and at research that has identified four key factors in avoiding the resource curse in countries as different as Norway, Botswana, Chile and Indonesia. It then uses these key issues as a framework to consider the specific steps that Uganda could take, and brings in lessons that can be drawn from the experiences of other resource-producing states. The hope is that the debate between Ugandan stakeholders can transcend contemporary political disputes – and that Ugandans can recognize their significant shared interests in meeting the challenges of oil.

Box 1: Uganda's oil: the state of play

Large-scale Ugandan oil deposits, described as Africa's biggest on-shore oil discovery in 20 years, were announced in 2006 and subsequently proven by the drilling of numerous successful test wells. Estimated reserves are about 2.5 billion barrels, a figure that may increase with new exploration, and a projected maximum daily production rate of some 125,000 barrels per day (bpd) – though some place this as high as 200,000 bpd. These figures mean that Uganda stands to join the ranks of mid-sized oil producers, roughly comparable to Gabon, the Republic of Congo, Chad and Trinidad and Tobago. Proven reserves place it in 40th place in global rankings.

Current reserves are estimated to have the potential to generate over $2 billion in annual revenue for more than 20 years. To put this into context, according to the OECD, Uganda's state revenues for 2012–13 are estimated to be $4.5 billion, and receipts of development aid for 2010 were $1.7 billion.[2] So while the contribution of oil to the economy will be considerable, it will not be immediately transformative – it is not on the same scale, for instance, as the $340 billion in oil revenues collected by Nigeria since it began production. Nevertheless it will present significant opportunities, and if used well can usher Uganda into a new era of economic prosperity.

However, Uganda's oil is difficult to access and challenging to transport and process. It will require significant investment – estimated at $10 billion – to develop its oil fields and many years to come on-stream. When commercial volumes of oil were confirmed in 2006, it was hoped that production could begin by 2009. To date, production has yet to commence, delayed by disputes between the government and oil companies, controversies over the terms of production-sharing agreements (PSAs) between them, and disputes over taxation. It is not expected that commercial-scale production will begin until 2016, and delays to beginning development of the field could push this back still further. Full production will not be reached until the early 2020s at least.

There have been some steps forward in 2012, notably the signing of agreements with new players in Uganda's oil – Total and the China National Overseas Oil Corporation, which have taken one-third stakes in the oil blocks as partners with Tullow, the company that has played the central role in the development of Uganda's oil to date – key legislation put before parliament, and agreement for the construction of an oil refinery. However, actual on-the-ground development remains stalled.

Technical challenges: rising expectations or time to prepare?

Uganda has waited a long time for oil. The first explorations took place in the 1950s, and were re-launched in the late 1980s, but plans for exploitation were interrupted by political and economic circumstances, as well as the difficulty and expense of extracting oil from a land-locked country. Uganda's oil is also of a type that is difficult and costly to process and transport. The region where oil is found, the Albertine Graben, will need significant investment in facilities before oil can begin to flow. In contrast to Ghana, where light oil and off-shore facilities meant that revenues

2 Figures from OECD DAC, accessed at http://www.oecd.org/dac/aidstatistics/1883200.gif.

have begun to flow into the country just three years after the beginning of development, Uganda will need a decade and more than $10 billion of investment to reach peak production.[3]

Thus, though debate around oil management has been intense in Uganda in recent years, the start of full production remains relatively remote. Expectations are high that oil will bring immediate improvements to the country, but this will not happen. Therefore the first challenge that Uganda needs to meet is to manage the expectations of the population, politicians and stakeholders alike. Unless this is undertaken, there is a real risk that the debate around oil becomes clouded by rumour, disappointment and anger – for instance, if it is felt that revenues are not being shared fairly, or that oil companies are benefiting more than the population. A 2012 survey revealed that more than 50% of Ugandans believe that none of the oil revenues, or only a small proportion, will be used for the benefit of all.[4]

There is also a serious risk that the debate on management of oil becomes defined by immediate political dynamics. Oil will be a vital feature of Uganda's politics and economy for decades. A future generation will take over the mantle of leadership from President Yoweri Museveni before the oil era comes to a close, but the decisions taken now will do much to secure Uganda's economic future as a regional and global player, and will shape the legacy of the current generation of leaders.

So it is incumbent on stakeholders to transcend day-to-day divisions, and instead work collectively to ensure the greatest long-term benefit flows to the population. And the relatively slow pace of oil development means Uganda has the luxury of time for a real national debate on oil. Unlike countries that move swiftly into production, it can ensure that all sectors of society have the chance to be heard, and that the necessary preparations are undertaken. Oil is a technical business, but it is social and political issues that will decide if it is a blessing or curse for Uganda.

3 According to Tullow General Manager Eoin Mekie, 'the difficulty with this development is that it's spread over a massive geographical area: the basin is 160 kilometres long, it's a very long way from the marketplace, and it's an incredibly environmentally and socio-economically sensitive area. So developing all that, it's not just developing the actual technology for the wells, it's getting the stuff to market that's the real difficulty. If you compare this to what we did in Ghana: Ghana was deepwater, single platform, pretty much off-the-shelf technology from the Gulf of Mexico – a floating storage buoy, tanker comes alongside to take it away to market. High capital costs, but technically relatively easy. This is completely different.' 'Tullow: National Oil Company may share in production, but government must make up its mind over basin development', *Oil in Uganda*, 14 May 2012, http://www.oilinuganda.org/features/infrastructure/tullow-national-oil-company-may-share-in-production-but-government-must-make-up-its-mind-over-albertine-basin-development.html.

4 Figures from Afrobarometer Round 5 Uganda Survey Results, 2012, http://www.afrobarometer.org/files/documents/summary_results/uga_r5_sor.pdf.

2 Explaining the 'Resource Curse'

Much has been written about the impact of oil, gas and other natural resources on the countries that produce them. It does not make for happy reading. There is a long list of counties that have been damaged by the discovery and exploitation of oil, from Nigeria to Equatorial Guinea, Angola, Gabon and Sudan, to Turkmenistan and Venezuela. The symptoms of the 'resource curse' have been forensically detailed.[5] They include the erosion of politics and increased popular alienation from the state, more corruption and economic distortions. The result is that, despite greater income and GDP growth, the development of non-oil sectors slows or is reversed by the overvaluation of currencies, worsening social outcomes and rampant unemployment. Environmental damage can harm livelihoods and social structures alike, notably in resource-producing areas themselves. The cumulative impact can be deepening social and political divisions that can, ultimately, lead to conflict.

These effects are widely recognized. An array of policy responses has been elaborated to tackle them, with an industry dedicated to translating hard-learned lessons into best-practice guidelines. Above all, it is the governance conditions in any given country at the time exploitation begins that determine whether resources will be a blessing or a burden.[6] Divided countries and those with authoritarian leaders, weak institutions or significant incidence of corruption and patronage will more than likely be dragged further downwards by significant resource flows. Conversely, well-governed and relatively unified states will be able to avoid the pitfalls and maximize the benefits.

Good governance and natural resources

Governance, therefore, is vital. Reflecting this, much of the 'resource curse' literature offers guidance on how to build an effective management framework for natural resources, insulating governance from the damage that resource revenues can bring. Economic distortions can be avoided through the careful control of spending, notably through the establishment of sovereign wealth funds or imposition of binding rules for saving. Independent oversight bodies, a clear role for civil society and educating the public can help achieve transparency in accounting for financial flows. The list is long. There is a great deal of value that can be drawn from this accumulated analysis and experience, particularly for stakeholders in countries, such as Uganda, facing newly discovered reserves and the hopes and challenges these bring.

5 For a useful overview see, for instance, Andreas Heinrich, 'Challenges of a Resource Boom: Review of the Literature', Working Papers of the Research Centre for Eastern European Studies, University of Bremen, No. 114, 2011; or for an Africa-specific perspective, Ibi Brown, 'The Paradox of Plenty: The Political and Developmental Implications of Natural Resources in Sub-Saharan Africa', Africa Portal Backgrounder No 10, 2011.

6 See, for instance, Douglas Yates, 'Enhancing the Governance of Africa's Oil Sector', South African Institute of International Affairs Occasional Paper No. 51, 2009; or Nicholas Shaxson, 'Oil, Corruption and the Resource Curse', *International Affairs*, Vol. 83, No. 6 (2007).

Box 2: Chad: the failure of a 'best-practice' framework

The weakness of a technocratic approach to oil management is well illustrated by the experience of Chad, which entered a phase of intensive development of its oil resources in the late 1990s. In partnership with the international community, led by the World Bank, significant assistance, both financial and technical, was offered in the construction of a pipeline to Cameroon, from where Chad's oil could reach a world market, in return for the elaboration of a stringent regulatory framework that seemed to 'guarantee an effective fight against poverty'.[7]

This included the transparent handling of oil revenues and the commitment of a significant percentage of them to poverty reduction. Just 15% was intended to go to the general government budget, with 85% set aside for measures intended to reduce poverty. Of this, 10% was earmarked to go to a 'future generations' fund, 5% to the communities of the oil-producing region, with the remainder reserved for priority sectors including infrastructure development, health and education.

The Chadian framework also incorporated an oversight committee that brought together the government and civil society to monitor the oil sector, the *Collège de Contrôle et de Surveillance des Resources Pétrolières* (CCSRP). It has a principal objective to ensure oil revenues are used to fight poverty. Made up of nine members, including four civil society representatives, the CCSRP was given broad powers, enshrined in law, to monitor production, budgeting and spending. Production started in late 2003, after the investment of more than $4 billion in the development of the oil fields and pipeline.

Yet, despite the close collaboration between the government and oil companies, and the best available technical expertise from the World Bank, the framework has not proved effective. The government has repeatedly sought to renegotiate the terms of revenue-sharing agreements, bringing a greater percentage under its direct control, notably in order to increase spending on the military and security services.

Chad's relationship with the World Bank broke down to the point where, in September 2008, the government repaid its remaining debt to the bank and ended its involvement with the oil sector. In the words of one analyst, 'the World Bank's position became untenable in the face of the evidence that the model it had designed had collapsed.'[8] Likewise, the CCSRP has not been able to play the role that civil society had hoped, undermined by political interference, budget constraints and a lack of access to sufficient information. Despite some successes in transparency of revenue – financial statements have been regularly produced by the CCSRP and oil companies – the government has proved able to direct spending as it wished, notably in the security sector. Development outcomes have not significantly improved, despite billions of dollars in additional revenue, leaving Chad fifth from bottom in the latest UNDP human development index.

The key lesson from the Chadian experience seems to be that externally sponsored regulatory frameworks, regardless of how robust they seem on paper, are not enough to ensure that oil revenues contribute to poverty reduction or improvements in government. Local political imperatives win out.

7 International Crisis Group, 'Chad: Escaping from the Oil Trap', 2009.

8 Artur Colom Jaén, 'Lessons from the Failure of Chad's Oil Revenue Management Model', Real Instituto Elcano, 2010.

But what this might actually mean in practice – what the consequences would be for any given country – is not often spelled out. Different social, political and historical contexts mean that there can be no one-size-fits-all answer. The differences between states such as Norway and Nigeria, for instance, are obvious and extreme, meaning that a specific policy that worked in one country may be ineffective in another. Policy options need to reflect local context, and be communicated in a way that speaks to local realities.

The literature is also largely silent on what might be called the governance Catch-22 – namely, that those countries with weak governance structures, most in need of learning from the experiences and mistakes of others, are the very ones that are least likely to take heed of that advice. In other words, if the fundamental problem is not the existence of the resources themselves but weak institutions, a divided or corrupted national politics or an entrenched oligarchy, then lessons that confine themselves to issues of technical management are not likely to save countries – and their populations – from the deprivations of the 'oil curse'. As Revenue Watch put it in reference to financial management, 'The difference between success and failure in the implementation of fiscal rules is oversight. Many countries have failed to benefit from these rules, not because they did not have the right ones, but because they were not followed.'[9]

Essentials of resource governance: learning from Indonesia, Norway, Chile and Botswana

Rather than looking to international experience for ahistorical best-practice frameworks, it is perhaps more fruitful to start from a deeper examination of the experiences of those countries that have been able to beat the resource curse, and see whether – despite the clear differences between them – any common themes emerge. Frequently cited success stories include Norway, Botswana, Chile and Indonesia. These countries have been able to use the wealth that comes with natural resources to build a positive future for their populations with social harmony and relatively good governance.

Recent analysis has begun to uncover four common factors that have been pivotal in warding off the resource curse.[10] They are:

- *Widely shared goals of preserving social stability and accelerating economic growth.* The importance of ensuring future stability needs to be felt at all levels of society. This does not necessarily imply political unity or agreement over any decision of policy, but merely that the population and its leaders agree on the broad imperative to achieve growth and avoid conflict. In Chile, for instance, common memories of coups, military government and economic crisis during the 1970s resulted in 'a broad constituency in favour of both economic stability and public debt reduction.'[11]

- *A credible and stable cadre of technocrats who hold some influence with political leaders.* Oil production and revenue management is a complex and technical process. The government needs to have access to informed views, either from within the traditional civil service or

9 Revenue Watch Institute, 'Comments on Petroleum Revenue Management in the Draft Ugandan Public Finance Bill 2012', March 2012, p.15.

10 Alan Gelb and Sina Grassman, 'How Should Oil Exporters Spend Their Rents?', Centre for Global Development, Working Paper 221, August 2010; UNDP Regional Bureau for Africa, 'Managing Natural Resources for Human Development in Low-Income Countries', WP 2011-02, December 2011.

11 Gelb and Grassman, 'How Should Oil Exporters Spend Their Rents?', p. 19.

from ad hoc advisory bodies, and to give specialists sufficient backing to ensure that their voice is heard. Indonesia, for example, is reported to have benefited greatly during the 1970s from a group of economic advisers known as the Berkeley Mafia, who were reported to have 'both great permanence and leeway to shape policies'.[12]

- *Strong constituencies outside party politics that can play a moderating role in relation to government, in moral or political terms, notably in arguing for prudent spending during booms and for effective spending otherwise.* In Botswana, traditional authorities and a cattle-owning elite have been able to exert a significant moderating influence on political actors since independence. In Norway, the fisheries industry played an important role in shaping government decisions.

- *Citizens who understand the reasoning behind spending decisions.* Delivering sufficient information about spending of revenues acts to minimize the spread of rumour, and the implication of the majority in decision-making is important in maintaining social harmony and avoiding future conflict. Nigeria is a good example of a country where a lack of clarity over development intentions allowed the development of a 'diffuse, rent-seeking business class'[13] resulting in 'dismal' economic performance, political atrophy and social divisions.

These factors do not cover the full range of issues that are normally considered under the umbrella of governance, most notably multiparty democracy or corruption. While these are of course issues of huge importance to Ugandans, and desirable goals, they should not necessarily be allowed to define the debate over meeting the immediate challenges of oil management. Indonesia has been significantly hampered by corruption for many years, yet has managed to use oil revenues for successful development. Botswana has been dominated by one political party since independence, but is generally considered to be a model for the rest of the continent.

These common factors are instead the product of a practical analysis that starts with an intention to simply identify what works, focusing on issues that have had the greatest material impact on states' ability to cope with the stresses of oil or resource production. As such, they may begin to define shared priorities for a prosperous and stable future. They also offer a framework for a collective conversation about oil management that can be explicitly linked to Uganda's realities.

12 Alan Gelb, 'Economic Diversification in Resource Rich Countries', seminar paper, www.imf.org/external/np/seminars/eng/2010/afrfin/pdf/Gelb2.pdf.

13 Peter Lewis, *Growing Apart: Oil, Politics and Economic Change in Indonesia and Nigeria*, University of Michigan Press, 2007.

3 Governance in Uganda

Existing governance indicators offer a useful starting point for analysis. The overall picture that they paint is mixed. Uganda is rated 20th out of the 54 states in sub-Saharan Africa in the 2011 Ibrahim Index of African Governance, and rated as 'partially free' by Freedom House. Aggregate scores collected by the World Bank under the Worldwide Governance Indicators programme[14] show how Uganda's governance performance has evolved over time: ratings across the range of criteria have remained largely static since the late 1990s, with slight improvements in accountability and stability balanced by marginal worsening of corruption and regulatory quality.

This picture is mirrored by qualitative assessments by academics and NGOs. The most recent report by International Crisis Group, for instance, acknowledges the improvements in the lives of Ugandans over the 25 years of President Museveni's tenure, but identifies 'a slow shift from a broad-based constitutional government to patronage-based, personal rule', which has 'has relied increasingly on centralisation, patronage and coercion to maintain control'.[15] Others have identified a persistent bias at the heart of government towards the president's ethnic group that belies his long-stated commitment to ending Uganda's sectarian politics.[16]

But while useful, these assessments do not necessarily cut to the heart of the particularities of managing natural resources. As seen above, the successful management of natural resources seems to rely on four particular aspects of governance across cultures and circumstances. The next question is therefore how Uganda currently measures up across each of these four issues.

A shared commitment to stability

Uganda is home to hundreds of ethnic and linguistic groups and made up of a patchwork of local and regional identities. It also has a history of exclusionary politics and violent conflict. But in spite of these potential cleavages, Uganda's turbulent history is perhaps a point of strength in facing the challenge of oil. Suffering during the war years touched all communities across the country. Though the civil war finished more than 25 years ago, Uganda has been plagued by a series of small-scale conflicts since. It was only with the flight of the Lord's Resistance Army into the Democratic Republic of the Congo (DRC) and beyond in 2005 that Uganda finally experienced peace throughout its territory. But memories of what was lost during the war years remain vivid. Though latent splits remain – which could again flare into resentment,

14 This aggregates a large number of individual data sources across six governance areas: voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law, and control of corruption. http://info.worldbank.org/governance/wgi/sc_chart.asp#.

15 International Crisis Group, 'Uganda: No Resolution to Growing Tensions', *Africa Report* 187, 5 April 2012.

16 See, for instance, Stefan Lindemann, 'Just Another Change of Guard? Broad-based Politics and Civil War in Museveni's Uganda', *African Affairs*, Vol. 110, No 440 (2011).

political mobilization and hostility, particularly if exacerbated by unscrupulous politicians or perceptions of inequality – Uganda's people are more united than divided by their shared experiences of conflict.

Therefore, despite social, political and economic frustrations, there is currently little willingness among Ugandans to see a return to violence. As Stefan Lindemann writes, a new civil war 'is widely considered unlikely'.[17] There is also a common desire to see progress towards economic growth, notably in the creation of jobs and addressing poverty.[18] Though Uganda faces clear challenges, notably in managing its latent divisions, a robust framework of shared objectives puts the country in a strong position as it enters its oil-producing era.

A capable civil service

Likewise, Uganda is able to call on a capable and effective civil service. The quality of the country's administration was badly damaged during the war years. Corruption is a serious problem, as is the overstaffing of many layers of the administration, particularly at local levels. But the successes of the 1990s and early 2000s have left a legacy of relative administrative strength across many departments. Uganda scores in the 34th percentile in the World Bank government effectiveness index, better than Africa's large oil producers – Nigeria, Equatorial Guinea and Gabon, for instance – and comparable to its neighbours in the East African Community. It ranks 98th out of 142 countries in the World Economic Forum Global Competitive Index – only marginally lower than successful oil producers such as Trinidad and Tobago (82nd).[19]

However, the overall assessment carried out by the World Bank has Uganda's overall regulatory quality declining from approximately the 50th to the 60th percentile of global rankings between the late 1990s and the present day – a small but significant reduction in overall effectiveness.[20]

Uganda also has specialists in the oil industry. The relatively slow development of the oil sector has allowed sector-specific knowledge to build up. This is particularly the case for the Petroleum Exploration and Production Department in the Ministry of Energy and Mineral Development, which has received significant government investment and has been instrumental in successfully managing the exploration phase of oil development. In addition, Ugandan stakeholders – from parliamentarians to journalists – have been able to learn about oil. The NGO sector is also well developed.

But while the formal structures of government in Uganda are robust, in many ways real decision-making bypasses these official channels. The executive exercises strong influence over some key policy areas, including oil, to some extent bypassing line ministries. And in addition, Uganda's decentralization programme has devolved some power to the local level, where a lack of capacity has resulted in poor-quality management, and widespread allegations of corruption and inefficiency. These dual dynamics, of power simultaneously moving upwards to the executive and downwards to local levels risk isolating and undervaluing the specialist expertise built up in government, particularly on oil.

17 Ibid., pp. 415–16.

18 The 2012 Afrobarometer survey revealed that economic issues – unemployment, poverty and overall economic management – are seen as the most important problems facing the country. Afrobarometer Round 5 Uganda Survey Results, 2012.

19 World Economic Forum, 'Global Competitiveness', http://www.weforum.org/issues/global-competitiveness.

20 Data on Uganda from the World Bank, Worldwide Governance Indicators, http://info.worldbank.org/governance/wgi/sc_chart.asp#.

Strong social voices

Despite the legacy of social cohesion from the shared experience of conflict, Uganda's fractious history also means that there are few groups outside formal politics with a strong voice in shaping a national conversation. While the National Resistance Movement (NRM) began as an inclusive organization that united much of the country's disparate society, it became a political party on the restoration of a multiparty system in 2005, one of a wide range of active political organizations. Uganda has had two competitive multiparty elections, in 2006 and 2011, and although there has yet to be a democratic transition of power, the principle and practice of democracy are increasingly entrenched.

However, while this is positive, the central point for the good management of natural resources is that formal democracy is not enough. Political leaders everywhere are subject to intense pressures to maintain popular support or react to crises. There is thus a perpetual temptation to use the revenue from natural resources to meet short-term goals rather than taking a long view. This is where strong voices outside politics can be vital, able to counsel caution and moderate the polarized debate that multiparty democracy often brings.

Such voices are not fully developed in Uganda. The business community was decimated by the abuses of the Idi Amin era and the chaos of the war. Although private-sector development has accelerated in recent years, it has experienced infrastructural bottlenecks, notably in transport and power generation. Uganda ranks in 120th place in the most recent World Bank 'Doing Business' survey, reflecting the considerable challenges, particularly infrastructural barriers, still faced by the private sector.[21]

Traditional rulers, particularly those of Uganda's constituent kingdoms, are extremely important and command both loyalty and respect. But their role in politics is indirect and limited, by law as well as custom. Likewise, media and civil society are well developed, but frequently are part of the political debate rather than standing above it. Churches and religious leaders are also important, but are divided along regional and political lines. Civil society will have a vital role to play in the successful management of Uganda's oil, but does not yet have sufficient capacity to truly balance the views of government or opposition.

Widely understood spending priorities

Finally, though the Ugandan government has a number of development frameworks in place, notably a high-profile National Development Plan, and more recently a draft 'Vision 2040', its decisions remain relatively opaque to many. The population is largely rural, and many are still poorly educated and therefore disengaged from national politics, despite sharp increases in the rates of literacy and education since the end of the war. Though the media are relatively strong, notably with a number of independent printed publications, the majority of Ugandans remain reliant on local radio stations of mixed quality and impartiality for their information.

Perhaps more importantly, decision-making, particularly around the allocation of money, is often unclear even to the educated, urban elite. As argued above, the power of the executive can undermine formal decision-making, notably on spending relating to defence, political campaigning

21 World Bank Doing Business Project, 2012 rankings, http://www.doingbusiness.org/rankings.

or capital-intensive infrastructure projects. The president has made it clear that he intends to shape the use of oil-related investments. The purchase of fighter jets in 2011 – costing some $740 million withdrawn from the Central Bank without the prior approval of parliament[22] – or the use of $430 million in taxes from oil companies to fund a new hydro-electric dam at Karuma[23] illustrate this pattern. The risk is that resource flows from the oil sector will be used piecemeal, with little public consultation and hence minimal popular buy-in.

Uganda's starting point at the dawn of the oil era is therefore relatively positive. The country has significant governance strengths that must be recognized, and that can offer a robust foundation for meeting the challenge of oil. But judged against the aspects of governance identified as key to the management of natural resources outlined above, there are also issues of concern.

22 'How Museveni convinced MPs on fighter jets', *The Observer,* 7 April 2011.
23 'Tullow taxes will finance Karuma Dam', *Africa Business Day*, 19 April 2011.

4 Options for Oil Management

Having sketched the starting point from which Uganda will move towards oil production, it is possible to begin to trace how the impact of oil can best be managed to improve the country's chances of reaping meaningful long-term benefits, with particular reference to the four key issues identified in Chapter 2. The challenge is not just to ensure that oil does not undermine governance, it is also to identify ways in which oil could become a catalyst for strengthening it. There are important lessons that can be learned from around the world.

Maintaining social cohesion: the importance of transparency

Transparency is a watchword of much literature on the resource curse. But why transparency is important is seldom spelled out. It is all too frequently seen as a goal in itself or as a mechanism to discipline government. Of course, transparency of budgeting and resource flows is a vital aspect of preventing corruption, which will be made all the more important by the influx of money that comes from oil production. It is also key to preventing ill-informed public opinion from driving government to use resources unwisely. As two analysts note: 'In many cases, the discovery of oil and other resources creates unrealistic expectations about future income, leading to increases in current expenditure, often on large and impractical projects.'[24]

But transparency is also vitally important in maintaining social cohesion. Rumour flourishes in the absence of accurate, timely information. And rumour – of advantages given to certain sections of society or resources unfairly distributed – is the fuel of social division, particularly in a country with the latent social cleavages of Uganda. As the Extractive Industries Transparency Initiative (EITI) notes: 'Affected communities and ordinary citizens often assume that the government and companies are trying to keep the resource wealth for themselves and are undermining the economic development of the country through corruption and mismanagement.'[25] So while Ugandans are currently unified by the imperative of avoiding conflict, and the shared goal of economic growth, there are real risks that this consensus will be put under considerable strain by oil revenues, particularly if communities feel that others are gaining more benefit.

Contract transparency

Unfortunately, the oil debate in Uganda has been marred by rumours and a lack of clear information. This has been the case particularly in relation to the production-sharing agreements signed by the government, and associated allegations of bribery.[26] The Ugandan government has, to date, released

24 Shari Bryan and Barrie Hofman, 'Transparency and Accountability in Africa's Extractive Industries: The Role of the Executive', National Democratic Institute, 2007.

25 Extractive Industries Transparency Initiative, 'Impact of EITI in Africa: Stories from the Ground', 2010.

26 For a critical analysis, see Platform, 'Uganda's contracts – a bad deal made worse', http://www.platformlondon.org/carbonweb/documents/Ugandas_oil_contracts_A_Bad_Deal_Made_Worse_Tullow_Heritage.pdf.

partial details of the PSAs to parliament,[27] but has refused to disclose them to the public. The resulting controversy has been divisive and perhaps even unnecessary. It may well be the case that the PSAs have been well negotiated, as attested by independent auditors who have examined them. The fact that they nevertheless remain the centre of speculation and argument underlines the risks of information being controlled too closely. Their publication would meet popular demand – some 79% of Ugandans say they should be released[28] – calm suspicions and send a positive signal of future openness.

In many countries around the world, PSAs are now released as a matter of course. Though full disclosure of contracts is a relatively new phenomenon, driven by campaigns such as EITI and Publish What You Pay, it has been enshrined in law in both Ghana and Liberia,[29] and has become standard practice in Azerbaijan. Many more countries including Egypt, Liberia, Georgia and Kyrgyzstan give parliament the right to approve all contracts. Tullow Oil has published PSAs in Ghana, and has publicly stated it would be prepared to do so in regard to Uganda, should the government give its approval. The São Tomé and Príncipe Revenue Law goes further and mandates public access to all payments.

Access to information

Access to information more generally can also be enshrined in law, covering more than just contracts. It is here that EITI can play an important role. Launched in 2002, it has developed a methodology to impose a globally recognized standard on the publication of payments, bringing together companies, governments and civil society.[30] There are currently 14 countries assessed as compliant with EITI principles, including Nigeria, Ghana, Mongolia and Azerbaijan, and a further 22 are candidates.

In Liberia, EITI is credited as having enabled discussions between government and local communities to discuss issues of concern, and it has also helped the Cameroonian government build capacity in monitoring and managing industry. In Nigeria, EITI has led to audit reports that have 'have placed immensely rich data and information in the public domain thereby strongly empowering civil society to hold government to account.'[31] Though Uganda has legally recognized the right of citizens to see information held by government, enshrined in the Access to Information Act (2005), this has not been fully operationalized, and is in any case contradicted by the provisions for confidentiality of information envisaged in new oil-related legislation. Uganda has also in principle committed itself to EITI membership, but has not yet taken the necessary steps for inclusion.

Independent oversight mechanisms

Another option for ensuring transparency is the establishment of an independent body to exercise oversight of the sector, along the lines of Ghana's Public Interest and Accountability Committee (PIAC) or Chad's *Collège de Contrôle*. Ugandan legislation on oil production and revenue management currently before parliament does not foresee the creation of any form of independent accountability mechanism. Instead, oversight of production is given to the Petroleum Authority or the minister for energy, depending on the issue, and through them to parliament. Likewise, the Ministry of Finance is foreseen as having a pre-eminent role in management of resource flows, in conjunction with the Bank of Uganda. This brings clear risks that information about oil might become subsumed in the wider business of government or that disclosure of sensitive information is hampered.

27 Global Witness, 'Civil Society Groups Challenge Ugandan Government Over Oil Transparency', 10 July 2012.

28 Afrobarometer Round 5 Uganda Survey Results, 2012.

29 Peter Rosenblum and Susan Maples, 'Contracts Confidential: Ending Secret Deals in the Extractive Industries', Revenue Watch Institute, 2009.

30 For more information, see EITI Factsheet No.1, http://eiti.org/files/4-jan-2013-EITI-Fact-Sheet.pdf.

31 Extractive Industries Transparency Initiative, 'Impact of EITI in Africa Stories from the Ground', 2010.

Box 3: Transparency in Ghana and Alaska

The Public Interest and Accountability Committee (PIAC) was established by the Ghanaian Petroleum Management Act to monitor compliance with the law, to act as a forum for public debate on oil issues, and to undertake regular and independent assessment of management and spending of revenues. Its membership represents a wide range of civil society groups and actors, from traditional rulers to trade unions, think-tanks, NGOs and religious faiths. It began work in September 2011 and has already published its first assessment report.

Ghana offers a model for Uganda to consider. In assessing progress on oil management and encouraging public engagement in informed debate, it is both the source and the conduit for useful, reliable information about the oil sector, able to cut through rumour and speculation. Significantly, though the PIAC is mandated by law – important to give it sufficient weight to offer objective views, even if they are controversial or politically unpopular – it does not have any coercive or enforcement capacity. It can neither compel witnesses nor prescribe punishment for any transgression. Nor does it have any formal role in the legislative process.

Thus the PIAC should be able to stand apart from partisan debate, free from party-political influence. Though there have reportedly been some tensions with government – the PIAC has not yet been given the financial or material support mandated by law – and parliamentarians have been nervous that their role was being usurped, the broad base of the committee provides it with the opportunity to build a relationship with all Ghanaian stakeholders, from local communities to national government.

Ghana also offers an interesting model for how mechanisms for consultation and transparency could function at a local level. The PIAC has already held public consultations in the oil-producing Western region of the country, an important step in ensuring local voices and concerns are adequately represented in the national debate.

Another model is offered by Alaska's Prince William Sound Regional Citizens' Advisory Council. The council was established after a major environmental disaster, the 1989 Exxon Valdez oil spill, which spread 11 million gallons of crude oil along more than a thousand miles of coast and had enormously damaging impacts on local ecosystems and livelihoods.[32] Subsequent investigations revealed that much of the damage could have been prevented by better planning and responses from both government and industry.

It was to ensure open lines of communication between local communities and industry that permanent, industry-funded citizens' councils were founded, to oversee both the oil transportation industry and its government regulators. It includes representatives from communities and businesses. The council was established both by law – the Oil Pollution Act of 1990 – and through a contract directly with the oil production company. Under the terms of this contract, the company funds the council and guarantees access to facilities.

32 Richard Steiner, 'Models of Public Oversight of Government and Industry', in Svetlana Tsalik, *Caspian Oil Windfalls: Who Will Benefit?*, (New York: Open Society Institute, Central Eurasia Project, 2003).

There are some positive features of the draft legislation. The Bank of Uganda will regularly have to publish the financial performance and activities of the Petroleum Investment Fund, to be made available to parliament and the wider public on set dates, and funds withdrawn from the petroleum fund and transfers to the government budget must be disclosed and approved by parliament. But there is no provision for a legally mandated independent body to monitor the oil industry more generally, which could both maintain broad oversight of the sector and act as a channel for timely and accurate information and analysis to the public. There are many options for the role, membership and governance of such a body.[33]

Building strong constituencies: commercial growth and agricultural development

The second key aspect of resource governance to be considered is the need for a group in society able to effectively offer a considered, long-term and politically neutral balance to the short-term imperatives of politics, or both government and opposition parties. It is not immediately obvious where this is to be found in Uganda. The country's ethnic variety and history of conflict mean that traditional authorities are controversial (in contrast to Botswana or Ghana, for instance, where traditional rulers are integrated into existing governance structures). As a result, they are unlikely to be able to act as a meaningful check on central politics. Media, civil society and professional bodies are well established, but are of mixed capacity and frequently politicized.

Given this context, the answer for Uganda seems likely to be in the development of a strong private sector. As one analyst has put it, oil has had a positive long-term impact on the development of robust political systems 'in societies in which strong, independent commercial classes had emerged as powerful political actors either before oil-based development began or because of it'.[34] Unlike Chile, Indonesia or Norway, Uganda does not yet have a well-developed commercial class able to advocate prudent government regulation of oil. Private-sector development may therefore be important. It is a difficult challenge for resource-producing countries. Only a few have succeeded. Some, including Malaysia, Chile, Indonesia and Sri Lanka, have diversified towards manufactured exports or, as in Chile, have widened their range of resource-based exports to include new and more sophisticated products. The imperative of economic diversification is reflected in the priorities for use of oil revenues set out in President Museveni's address on oil to the Ugandan parliament in early 2012, which underlined that electrification, transport infrastructure and innovation would be the three key areas of investment.[35]

The imperative of agricultural development

But moving directly towards industrial production would be difficult for Uganda, given the overwhelmingly rural nature of the population, levels of technical education and infrastructural weakness. Instead it is agricultural development that is likely to be vital to Uganda's medium-term future. It is a sector that has not matched the country's impressive growth rates since the

33 The role of such bodies ranges from a Supervisory Board in Azerbaijan with a mandate to review and audit the Oil Fund, to the Board of Directors of the Kuwait Investment Authority which overseas and directs the National Oil Company, and São Tomé and Príncipe's Petroleum Oversight Commission, which has a broad remit to monitor all oil-related activities. They commonly have representatives from government, civil society and the private sector, and are variously selected by the head of state, as in Azerbaijan, or by the organizations or social groups represented, as in Ghana. For more detail see Joseph C. Bell and Teresa Maurea Faria, 'Critical Issues for a Revenue Management Law', in Macartan Humphreys, Jeffrey D Sachs and Joseph E Stiglitz (eds), *Escaping the Resource Curse*, Columbia University Press, 2007.

34 Benjamin Smith, 'Oil Wealth and Regime Change', in Michael Dauderstadt and Arne Shildberg (eds), *Dead Ends of Transition: Rentier Economies and Protectorates* (Frankfurt: Campus, 2005).

35 Yoweri Kaguta Museveni, 'Address to Parliament by the President of the Republic of Uganda on Oil', 10 February 2012.

late 1980s. The real growth rate in agricultural output is the lowest among all the sectors of the economy and far below the National Development Plan target of 4.9%.

Prudent investment of oil revenues provides a significant opportunity to address this shortfall. Not only is agriculture the source of livelihoods for the vast majority of Ugandans – some 73% are estimated to be dependent on agriculture[36] – but it has also been identified as the most effective sector for overall development; 'accelerating agricultural growth should remain a key component of any growth strategy aimed at substantially reducing between-regions income inequalities and overall poverty in Uganda.'[37] Though investment in infrastructure and transport will no doubt help the development of the rural economy, it might also be worth considering using oil revenues to fund specific, targeted support to agricultural growth, through loans, subsidized access to fertilizer or equipment.

Box 4: Agricultural development in Nigeria and Indonesia

According to Peter Lewis, 'In spite of important similarities in size, social makeup, resources, economic composition, regimes and political history, Indonesia and Nigeria displayed strikingly different paths of governance and economic performance from the late 1960s through the 1990s.'[38]

There are of course many reasons for this divergence, though their investigation is beyond the scope of this report. However, one key issue has been identified as the importance placed by their respective governments on agricultural growth. In comparative studies of differential growth rates in Southeast Asia and Africa, development success has been linked with a policy focus on agriculture and on food production. Raised incomes for the rural majority led directly to poverty reduction and also enabled the broader development of an industrial economy.

In Indonesia, one study finds,

> *oil revenues were invested on a huge scale in enhancing the productivity of peasant agriculture by means of irrigation works, the development and dissemination of new high yielding rice varieties, fertilizer and pesticide subsidies, and subsidized farm credit. In the New Order's first five-year development plan (1969–74), fully 30% of the development budget was allocated to agriculture – not including the large sums also spent on rural roads, electrification, health services, and education. In Nigeria … the proportion of development funds spent on agriculture fell to just six percent as Nigerian planners chose instead to invest their oil windfall in ill-conceived schemes for heavy industrial development.*[39]

The result was clear. Between 1971 and 1991, real agricultural output per capita increased by 1.5% per year in Indonesia, while it fell by 2% per year in Nigeria. Put simply, Indonesia grew, while Nigeria stagnated. In 1965 Indonesia's per capita GDP was lower than Nigeria's. By 2000 Indonesia's per capita GDP was five times higher.

36 PELUM Uganda, 'A Review and Analysis on Farmers' Entrepreneurship Development', 2010.

37 Paul Dorosh and James Thurlow, 'Agglomeration, Migration, and Regional Growth: A CGE Analysis for Uganda', IFPRI Discussion Paper 00848, February 2009.

38 Lewis, *Growing Apart*, p. 3.

39 Jan Kees van Donge, David Henley and Peter Lewis, 'Tracking Development in Southeast Asia and Sub-Saharan Africa: The Primacy of Policy', *Development Policy Review*, Vol. 30 (2012).

Spending vs saving of oil revenues

But targeted investment will not necessarily be sufficient to kick-start growth. In fact, too much investment could harm it. As noted, economic diversification has proved extremely difficult for resource-dependent countries. In part, this is because of the economic distortion effects known as the 'Dutch Disease' – when oil revenues flood into a country, the local currency increases in value, making exports uncompetitive. Agriculture, owing to its reliance on exporting, is particularly vulnerable to economic conditions, notably the value of the local currency.

Countries catch the 'Dutch Disease' when too great a proportion of revenues from natural resources is allowed to circulate in the economy, most often as a result of being spent by government on large-scale projects. It is for this reason that oil revenues must be spent extremely carefully. Politicians are under constant pressure to spend more, particularly in a country such as Uganda where the needs are obvious and deep. Spending too much too quickly on developing the agricultural economy or infrastructure could result in the Ugandan shilling becoming over-valued, and agricultural exports becoming too expensive – harming progress rather than helping. There is a real risk that well-intentioned spending ends up damaging the Ugandan economy rather than building it.

Options for oil revenue management

Uganda therefore faces a difficult balancing act, between spending wisely – on agricultural development, infrastructure and so on – and saving enough to maintain economic stability. In other words, spend on developing agriculture, but ensure that progress is not undermined by spending too fast. A mechanism that automatically allocates a proportion of income to savings can be extremely helpful in this regard, and could be key to the fulfilment of a development vision that has agriculture at its heart.

Most commonly, this takes the form of some type of sovereign wealth fund. But the current draft of the relevant Ugandan legislation does not envisage the creation of a fund, or even the stipulation of a formal fiscal rule laying down in law the percentage of revenues to be invested. Instead, the division of funds between the regular budget and the Petroleum Investment Reserve will be decided on a year-by-year basis by the minister and parliament. There is a clear risk that political pressures will result in revenues being spent rather than invested. This would in turn risk macro-economic instability and currency appreciation – which would be fatal to agriculture-led development.

There are many options for how such a mechanism might function. The most common is a sovereign wealth fund, such as the Norwegian Government Pension Fund, Trinidad and Tobago's Heritage and Stabilization Fund, or the Kuwait Investment Authority. Even Nigeria has now instituted a stabilization fund, the sovereign wealth fund launched in 2011, though recent controversy has highlighted the imperative of clear rules and broad political consensus in establishing a fund.[40] Funds have a wide variety of roles, purposes and management structures, the most important of which are to protect oil revenues from political pressures, and act as a buffer against oil price volatility. Their reserves range from nearly $600 billion held by Norway to less than $3 billion in Trinidad's fund.

There are also many options for binding fiscal rules that govern how much money is released to the budget annually, and how much withheld. In Norway, 100% of oil revenues are transferred to the fund, and budget spending is restricted to interest earned on the fund holdings; whereas Trinidad

40 Nigeria's state governors took the federal government to the supreme court in November 2012, claiming the sovereign wealth fund violates the constitution, which requires oil revenues to be paid into Nigeria's federation account.

and Tobago deposits all earnings that exceed estimated oil revenues by more than 10% in its fund, and may withdraw from it if earnings drop more than 10% below estimated receipts. Nigeria's sovereign wealth funds[41] will be topped up to a given percentage of gross domestic product decided every two years. Ghana will save 30% of its oil revenues in Heritage and Stabilization funds.

Balancing between spending and saving is a delicate and complex decision, particularly in a country with significant development needs. Offering specific advice on the type of fund or fiscal control mechanism that might be most suitable for Uganda is beyond the scope of this report. But it is clear that how much to spend and how much to save is fundamental to generating sustainable growth, particularly on agricultural development. And real growth in the rural economy is vital to both overall Ugandan development and the future governance of oil – it will allow the growth of an entrepreneurial class able to moderate the excesses of future generations of politicians. One of the key factors of Uganda's post-conflict success has been macroeconomic stability, a success that can contribute to long-term success in oil management if it creates the conditions for the emergence of an agricultural commercial class. Oil can be the key to fuelling growth – but should not be allowed to disrupt it.

Empowering experts: listening to specialist advice

There are experienced and capable technocrats in Uganda, both in the specialist oil and energy ministries, notably the Petroleum Exploration and Production Department, and in finance-related bodies. There are also impressive individuals in Ugandan civil society able to make positive contributions to oil management. Despite the steep learning curve, the slow pace of oil development will allow expertise to develop in Uganda, which has a relatively strong base and is moving in the right direction. The more important question is whether their voices will be heard.

The structure that has governed Uganda's oil sector to date, run largely by the Ministry of Energy, has proved relatively effective, despite controversies over the detail of PSAs (see above). But, as Uganda moves towards production, this will be replaced by a new and much more extensive structure to complement the ministry's role. And of course, increased revenues resulting from oil production, signing bonuses and related payments will pose an additional challenge to finance-related structures.

Though some of the relevant legislation is still being debated, the Petroleum (Exploration, Development and Production) Bill was passed in December 2012, and gives a clear indication of the direction that Uganda's leaders are likely to take. The 2012 legislation foresees the establishment of an independent Petroleum Authority, charged with oversight of the sector in exploration, development and production phases, and a National Oil Company (NATOIL). The legislation proposes that NATOIL should 'handle the state's commercial interests' and 'manage the business aspects of state participation' in oil. But the government retains clear overall control. The energy minister is foreseen as having final say on policy relating to production issues, including the issuing of licences, and the minister of finance on decisions related to the spending of resulting revenues. These will first flow into a holding account before being separated into a Petroleum Investment Reserve, managed by the Bank of Uganda, or allocated directly to the national budget, and therefore subject to normal budgetary oversight procedures, including parliamentary approval.

41 Nigeria in fact has three different funds; the Future Generations Fund, the Nigerian Infrastructure Fund and the Stabilization Fund, all administered by a new Nigerian Sovereign Investment Authority.

Box 5: Export vs local refining: a technical or political choice?

One of the key questions facing Ugandans at the start of the oil era is how much of the oil will be exported in crude form to the world market, and how much refined in the country and sold into local and regional markets. Each approach brings different advantages.

Local refining would reduce transport costs, notably of bringing refined products from the nearest ports in Kenya, and could increase local value-addition through the creation of jobs and the stimulation of local petroleum-related industries.

Exporting Ugandan crude, on the other hand, would avoid the expense of building a refinery – costs have been estimated at $3–4 billion – and, through offering oil production companies access to reliable world market prices, could spur further investment in Uganda's oil. It is the option preferred by both the World Bank and International Monetary Fund and oil production companies.

This is not just a technical decision. A local refinery may bring economic benefits, but also risks political problems – most notably over the pricing of oil-related products for local consumption. It may not be obvious, for instance, why Ugandans should pay a world market price for products flowing from a Ugandan refinery, using Ugandan oil. The resulting public pressure for cheap oil could push the government to impose price restrictions, thus hitting the profits made by oil companies and committing the government to on-going subsidies – using oil revenues to pay for cheap products now rather than investing for the future. These are precisely the circumstances that led to a new refinery in Chad being closed by the operating company – in this case the China National Overseas Oil Corporation – after the government imposed a below-market rate on its products.

Further, though the economic logic for a Ugandan refinery has been verified by a major international consulting firm and found to be sound, it leaves the oil industry dependent on uncertain national and regional markets. Despite the huge potential for the export market of Ugandan oil products – stretching into the DRC, South Sudan, Rwanda, Burundi and wider East Africa – it is an area of considerable political uncertainty. Future unrest across the region could result in significant fluctuations of profit, even risking the viability of large-scale production.

It is beyond the scope of this report to comment in detail on the merits and risks of the two options – a small-scale refinery serving a domestic market, with excess exported, versus a large refinery treating all of Uganda's production – but it is a decision that will have impacts on Uganda for generations. The interwoven technical and political issues in play need to be carefully considered by Ugandan stakeholders, making the imperative of expert advice particularly acute.

Ensuring impartial oversight

But though the formal decision-making structures envisaged seem relatively robust, there are some possible concerns over their design. First, the bills lay out a structure for oil management that gives a great deal of power to the relevant ministers, and by extension, the president, with little formal oversight from parliament – described in one report as 'virtually nil'[42] – or opportunity for challenge from specialists within the system. The Petroleum (Exploration, Development and Production) Bill spells out the minister's powers, including the issuing of licences, drafting legislation and developing regulations.

42 Mika Minio-Paluello, 'The Ugandan Upstream Oil Law: A Search in Vain for Accountability and Democratic Oversight', Platform, 2012.

Box 6: Options for oil institutions

The standard model for the organization of oil regulation is one that sees a 'separation of powers' between a petroleum authority, national oil company and ministry. This is the model adopted by Norway, which brings the major advantage of dividing licensing and monitoring functions from the day-to-day pressures of government, and allowing an independent national oil company to develop technical capacity. But as one recent study[43] of countries with low governance capacity has found, such a framework demands the investment of significant resources to function effectively.

Another option is to devolve management to the relevant ministry, which is less costly and can result in strong oversight, but risks the politicization of decision-making. Finally, management can be given the responsibility of regulation, which can build capacity quickly in an environment where the state has low capacity, but concentration of power in a single institution poses risks to transparency and accountability.

Low-capacity countries seem to have done better when responsibility for management has been concentrated, either in a national oil company or in a ministry, largely because this enables expertise to be developed quickly and cheaply, but with the caveat that concentration of responsibilities brings risks. Angola is a good example of these risks, where a national oil company successfully managed the technical side of oil production, but at the same time enabled large-scale corruption through a lack of accountability – links between the management of the national oil company and the political elite left revenues vulnerable to misuse. Gabon, where management was left to a ministry rather than a national oil company, suffered from a similar domination by personal interests. Neither has to date used oil revenues for sustainable development.

But it is also important to note that a formal division of powers is not sufficient to ensure robust management if political will is lacking – political interests will win out. In East Timor, for instance, a system that embodied the division of responsibility between a national oil company, ministry and authority has been overridden by the political elite to the point where 'in practice, power over the sector is concentrated in the hands of a few powerful individuals'.[44] In East Timor strong public trust in government has averted too many negative consequences. But in countries with less robust governance, a separation of powers may bring costs – as noted, multiple agencies demand significant resources to function effectively – with little material benefit.

A final option might be to sequence the development of oil management institutions. In both Brazil and Ghana, the system was in the past dominated by a national oil company, only for government to institute new bodies later to avoid the risks of mismanagement and poor transparency associated with the primacy of a single agency. In Ghana, a national oil company was founded in 1983, when state capacity was weak. But growing concerns over transparency and effectiveness led it to institute a Petroleum Commission in 2011, ending the national oil company's monopoly over technical advice. In Brazil, a national oil company likewise dominated until a National Petroleum Agency was created in 1997, reflecting higher central government capacity.

43 Much of the following analysis is synthesized from Patrick R.P. Heller and Valérie Marcel, 'Institutional Design in Low-Capacity Oil Hotspots', Revenue Watch Institute, 2012.

44 Ibid., p. 24.

There is also the potential for confused lines of authority. The legislation lays down some important rules for ensuring the impartiality of the Petroleum Authority, intended to 'monitor and regulate' petroleum activities.[45] But there are also significant ambiguities, most notably over the relationship between that body and the minister. The Petroleum Authority is set up as independent but in practice may play more of an advisory role, and it is required by law to comply with written instructions from the minister. The risk of political interference in its decision-making is clear, as is a possible blurring of lines of accountability. As Revenue Watch Institute observes:

> *It would seem that there is some dual governance structure with the Authority and the Minister sharing the top seat depending on issues. This may lead to situations where the Minister and the Authority may try to deflect the responsibility for their actions onto the other.*[46]

These risks are even more acute in relation to the proposed NATOIL. Though, as seen, it is intended to handle the involvement of the Ugandan state in commercial oil-related activities, the legislation as currently drafted does not define these terms, nor does it lay out the tasks the company will be charged with performing. NATOIL is likely to be the conduit for significant revenues from oil production to government budgets – weakness in its structure could allow government to use revenues outside formal decision-making channels.

In terms of the options set out in Box 6, it seems Uganda will have a hybrid 'separation of powers' system, with new institutions established but ultimate authority over the sector remaining with the government of the day. This would seem to bring certain disadvantages – notably the expense and time of building the capacity and experience of wholly new institutions – while at the same time not bringing the advantages of wholly independent, impartial operation, and may risk diluting or disempowering the impressive technical capacity that the government has built up in the Ministry of Energy.

Independent financial advice

The risks of politicized decision-making are also clearly present in the proposed structure for management of financial flows from oil. The model proposed by current draft legislation will see revenues from oil moved first into a holding fund and from there into either a Petroleum Investment Reserve (PIR), or directly into the government budget. The amount allocated to budgets or the PIR is to be decided annually, by the minister and parliament, according to a planned Allocation Act.

There are some positive points in the current legislation. There are clear rules prohibiting the use of PIR funds as collateral for borrowing – which has been the route to the build-up of significant debt in other oil producers in the past – and the minister is required to provide regular audited financial statements to parliament. The act also foresees the constitution of an Investment Advisory Committee (IAC) charged with advising on investment decisions. This follows states such as Ghana, which set up a new investment advisory committee in early 2012, and Chile, where a cross-party financial advisory committee was created in 2007. But the IAC is envisaged as having a membership that is appointed and determined by the minister, which may limit its independence from government. A further option would be to engage an outside agency to take investment decisions; East Timor, for instance, has appointed the Bank for International Settlements to invest its oil surplus in government bonds.

45 These include the provision that a board member cannot be a shareholder of any petroleum entity, the publication of ministerial directions to the authority, and the production of an annual report.

46 Revenue Watch Institute, 'Comments on Uganda Petroleum (Exploration, Development and Production) Bill, 2012 (Bill No. 1)', 2012.

Indonesia's experience in the 1970s may be instructive. The global oil crisis of the 1970s greatly increased oil prices and profits, much of which was used to expand the national oil company (Pertamina) beyond production to include investments in tankers, steel and construction. Pertamina was run by a close associate of the president, and was reportedly used as a 'cash cow' by the political elite. It became increasingly corrupt and built up more than $10 billion in debt, and eventually had to be bailed out by the government, more than doubling the national debt. It was this crisis that reportedly strengthened the position of a team of technocrats, who were able to manage the booms and busts of the late 1970s and 1980s without damage to Indonesia's economy and to play a key role in Indonesia's successful development.

Of course, there are significant differences between Indonesia and Uganda, but the overall pattern of executive interference in oil management leading to the temptation of corruption, inefficiencies and economic damage is clear. Whichever option for oil-sector management Uganda eventually settles on, it will be vital that space is created and maintained for expert opinion to reach the key decision-makers, and be acted on.

Engage the population in spending decisions

Making the right decisions on how to spend or save oil revenues is vitally important. But this is only half the picture. Given the stakes involved, the manner in which decisions are taken is also extremely important, notably to ensure that a majority of ordinary Ugandans feel involved in political decision-making, particularly around oil. However, recent survey data have highlighted some issues of concern. Even though a majority of Ugandans say they trust President Museveni, as well as their MP and local officials, 74% also said that politics and government were too complicated for them to understand.[47] As noted above, more than 50% of Ugandans say that none of the oil revenues, or only a small proportion, will be used for the benefit of all.[48] Unless steps are taken to bring the population on board with a collective vision for the spending of these revenues, divisions between the political elite and the majority of the population may widen.

In technical terms, the most persuasive reason for this is the breakdown of the relationship between citizen and state – government access to resource revenues lessens the need to rely on tax receipts, progressively eroding the connection between people and state. Tax is currently estimated to make up just 13% of GDP, a low rate even in comparison with the rest of Africa, making Uganda particularly vulnerable to these effects. As one commentator has written about oil-producing states:

> *An unusual combination of dependence, passivity, and entitlement marks the political culture of petroleum exporters … With basic needs met by an often generous welfare state, with the absence of taxation … populations tend to be politically inactive, at least as long as the oil state can deliver.*[49]

47 The Afrobarometer survey gave an approval rating for President Museveni of 59%. Figures from Afrobarometer Round 5 Uganda Survey Results, 2012.

48 Ibid.

49 Terry Lynn Karl, 'Oil-Led Development: Social, Political and Economic Consequences', CDDRL Working Paper No. 80, Centre on Democracy, Development and the Rule of Law, Stanford University, January 2007, http://cddrl.stanford.edu.

Set clear spending priorities

There is therefore a pressing need to implicate as much of the Ugandan population as possible in the overall direction the country is taking. One preliminary step would be to forge a legal link between oil revenues and specific development priorities, something not foreseen in current draft legislation. According to Revenue Watch,

> *Currently the PRM chapter in the public finance bill does not offer guidance on how the money that flows to the budget should be used. It does not make explicit that oil revenues should be used for capital investments, nor does it link the investment priorities to long term national development plans.*[50]

Uganda has already taken some positive steps. The government has elaborated a variety of overarching development visions, from a five-year National Development Plan,[51] intended to be the first of six, which has been simplified into a 'citizen's guide' and translated into local languages, to the draft 'Vision 2040' set out by the National Planning Authority. There are also sector-specific development visions, including for the development of agriculture and trade. They provide a clear framework through which the development path that Uganda will pursue can be widely communicated and understood.

But all too often in the past, government plans have not been implemented, leaving the population confused by ad hoc decision-making. And though the government has established a communication department in the Ministry of Energy and has conducted public outreach, to date this has been on a relatively small scale. Unless the reasoning behind the allocation of resources is widely understood, public unhappiness with the government's performance may lead to pressure on it for increased spending determined by short-term political priorities rather than long-term goals.

Botswana offers an interesting illustration. There, an explicit link was created between resource incomes – from diamonds – and spending decisions. The Botswana 'Vision 2016' development plan was formulated, in part, to 'to create the conditions where all people can feel that they have some stake in both the present and the future'.[52] Mineral revenues were reserved for capital projects, and all new projects, each of which had to be approved by parliament, had to be included in a National Development Plan.[53] Botswana has been able to profit from its natural resources, recording one of the highest consistent growth rates in Africa, at the same time as maintaining its social cohesion. The involvement of the public in spending decisions has been one important factor in this success.

The importance of public consultation

However, even if spending is linked to clearly defined priorities, the decisions thus taken need to be communicated to the public, and feedback mechanisms established to allow the communication of popular views back into government. It is important to note that this is not the same as transparency – simple access to information is not enough to drive meaningful popular engagement. As one expert has pointed out:

50 Revenue Watch Institute, 'Comments on Petroleum Revenue Management in the Draft Ugandan Public Finance Bill 2012', March 2012.

51 The Republic of Uganda, National Development Plan 2010/11 – 2013/14, April 2010, http://npa.ug/docs/NDP2.pdf.

52 University of Botswana, 'A Framework for a Long-Term Vision for Botswana', 2002.

53 President Festus Mogae, 'Speech at a National Seminar on Managing Oil Revenue in Uganda', July 2008.

> *transparency is a necessary, but not sufficient component of informed public participation in a democracy. To have an active voice, the public, or at least a representative body of the public, needs to have a legitimate and formalised role overseeing and interacting with industry and government.*[54]

One way to do this is through regular public consultation. There are a number of examples of public consultations related to the oil industry. In São Tomé and Príncipe, community meetings were held to allow civil society and the population an opportunity to discuss the impact of oil and how revenues should be used. In 2012, Liberia's national oil company launched a programme of national consultation on oil policy, which will see officials and civil society representatives visit all political sub-divisions of the country. Trinidad and Tobago offers another instructive example of an oil-producing state that has taken steps to strengthen the buy-in of the population to development programmes, in the context of booming oil-related spending.

Box 7: Popular engagement in development: Trinidad and Tobago

Trinidad and Tobago began large-scale oil production in the 1960s. Since 1980, production has averaged between 100,000 and 200,000 barrels per day, roughly equal to Uganda's projected peak. The government is reported to have spent a significant percentage of revenues on development, increasing spending on social programmes by more than 500% between 1999 and 2010. Trinidad and Tobago also has a vibrant civil society and a long history of popular consultation.

Yet despite these positive foundations, concern has grown about a lack of social progress, decreased control of corruption and worsening government effectiveness. The government response has been to institute a new framework for oversight of government programmes, increased collaboration between partners and feedback into government decisions. A National Performance Framework has been implemented to measure, monitor and report on progress against the Medium Term Policy Framework, 2011–14, and new institutions set up to facilitate communication, including a Civil Society Board and an Economic Development Board. The Civil Society Board will be voted for by members of civil society organizations and will act as a conduit for transmission of popular views and concerns into government thinking. The Economic Development Board was established in 2011 and brings together private-sector representatives, officials and academics to offer guidance on overall economic development.

The precise experiences and challenges of Trinidad and Tobago are very different from those facing Uganda, but it is instructive that a state with a mature oil industry and relatively developed economy has found the issue of citizen disengagement sufficiently pressing to take significant steps to increasing public participation in, and understanding of, government.

54 Richard Steiner, 'Models of Public Oversight of Government and Industry', in Tsalik, *Caspian Oil Windfalls*.

Box 8: Parliamentary role in oversight and communication

Parliament is both a key mechanism for oversight of the oil industry and one of the institutions most vulnerable to the corrosive effect of oil, notably where democracy is still emerging and institutions are weak. According to Svetlana Tsalik,

> *The lack of transparency, absence of separation of powers, political discretion afforded the president's administration, and unclear property rights … make it extremely easy for the kind of patronage politics to emerge that characterize economies such as those of Saudi Arabia, Venezuela, and Nigeria.*[55]

Parliaments have multiple roles. They are responsible for passing the legislation that creates the framework for oil, and exercise normal oversight and budgetary control functions. This is perhaps most visible in countries with well-established democracies – for instance, in the role of parliament in the development of Norway's oil and gas industry. In many states, they also have a role specific to the oil industry and related revenues. In some cases, this is specifically designed to increase public accountability. In São Tomé and Príncipe, the legislature is required to hold an annual debate on oil and gas policy. These sessions must be open to the public and should be preceded by public consultations with civil society. Ministers, investment committee members, the auditor general and the oversight board are required to be present to answer questions from parliamentarians, and to discuss the activities of the fund including the required annual oil fund audits.[56]

Parliaments also have a key role in the management of oil revenues. In East Timor, the parliament has the right to refuse government requests to spend more than 3% of the petroleum fund. The legislative assembly of the Canadian province of Alberta created a new standing committee in 1997, which approves the business plan of a Heritage Fund set up to manage oil revenues, reviews the effectiveness of the fund and, importantly, holds public meetings with the population to discuss its investments and results. The committee's performance is judged in part by the level of popular understanding of the Heritage Fund, for instance whether half of the population can estimate its value.[57]

Other important roles for parliament in many oil-producing countries include approving contracts signed with oil companies – as noted above, states including Azerbaijan, Egypt, Georgia, Kyrgyzstan, Liberia, Sierra Leone and Yemen all require new contracts to be ratified by parliament – and acting as an oversight body for misuse of funds.

However, the ability of parliament to contribute positively to both oversight and public understanding is limited by capacity gaps. One large-scale survey of African oil-producing states carried out by the National Democratic Institute (NDI) found parliamentary weakness to be a factor across all case studies, largely as a result of political and institutional constraints; members were subject to political pressure, or suffered from a lack of access to information and the necessary technical knowledge to understand it.[58] Regulation and oversight of the extractive industries require an understanding of complex technical and financial issues. In every country surveyed by the NDI, concerns were raised about the capacity of individual legislators to understand and contribute to management and oversight of the extractive sector.

55 Svetlana Tsalik, 'The Hazards of Petroleum Wealth', in Tsalik, *Caspian Oil Windfalls*, p. 11.
56 Bell and Faria, 'Critical Issues for a Revenue Management Law'.
57 World Bank, 'Country Experience with Petroleum Revenue Funds', Part 1, 2009.
58 National Democratic Institute, 'Transparency and Accountability In Africa's Extractive Industries: The Role of the Legislature', 2007.

Empower parliament

A second and more formal way of ensuring public understanding and buy-in is through elected representatives. The key institution is of course parliament. As the World Bank Institute has noted, 'Parliaments are uniquely positioned to understand and monitor the effects of extractive industries on the citizens and act as a bridge between the government, private sector and civil society.'[59]

Uganda's parliament has taken an active role in the debate on oil, notably since the institution of the 9th parliament after the 2011 elections. Most controversially, this included the establishment in late 2011 of an ad hoc committee on oil and gas, set up to investigate allegations of corruption around the signing of contracts with oil companies, which imposed a temporary moratorium on new agreements. The parliament is currently working on legislation on oil production and public finance, and, as noted above, passed the Petroleum (Exploration, Development and Production) Bill (2012) in early December 2012. A Parliamentary Forum on Oil and Gas has also been set up, bringing together interested parliamentarians from all parties and regions to more effectively share information and communicate with government.

But the role parliament is able to play is perhaps somewhat lessened by the preponderance of NRM members, along with popular reservations about how elections are conducted, allegations of corruption and the difficulties of clear communication between members and constituents. MPs may also lack sufficient specific knowledge on oil issues to fill the communication gap effectively. And, as noted, the role of parliament in the management of the oil sector foreseen under the current draft legislation may not place members at the centre of the debate.

Of course, the Ugandan parliament approves both the national budget and individual policy areas, and it is important to note that Uganda's position as an established formal democracy puts it in a relatively strong position. But oil will increase the stress on the system – and has a long track record of undermining governance. As one commentator has noted, 'The heart of the resource curse is that resource rents make democracy malfunction.'[60]

Listen to local voices

The need for real public understanding of spending decisions will perhaps be most acute in managing local tensions. It is populations in the oil-producing region that will suffer the deepest and most immediate changes to their lives, and there is already a great deal of concern that they will not receive sufficient compensation for the impact that oil production will have. These tensions have already begun to emerge in Uganda, as reflected in lobbying conducted by the traditional rulers of the Bunyroro kingdom – which covers much of the oil-producing region – for the allocation of 20% of revenues leading to increased local demands.

The impact of oil production on local communities is predictable. The influx of money that natural resources bring can distort local economies, raising the cost of living, accommodation and land. Ghanaians in the oil-producing Western region are already concerned that prices have risen beyond the reach of many, particularly in urban centres. There have been significant purchases of land by wealthy investors, leaving little for traditional agricultural production. Primary production can also bring about significant environmental damage, which in turn can hit traditional livelihoods, particularly farming and fishing, and newer income streams such as

59 World Bank Institute, 'Parliamentary Oversight of the Extractive Industries Sector', 2008.
60 Paul Collier, *The Bottom Billion: Why the Poorest Countries are Failing and What Can Be Done About It*, Oxford University Press, 2007.

tourism. Ghanaian fishing communities have clashed with security forces protecting offshore installations, and have reported depleted fish stocks.

The situation is made more difficult when the new industry generates few new jobs for local people. Oil, as a technical and complex industry, does not demand the kind of mass labour that mining does. In fact, estimates are that Uganda's oil industry will directly create just 3,000 jobs. Many will be taken by expatriates with the necessary specialist skills. The resulting unemployment can, in a context of increased scarcity caused by rising prices, lead to political protest and even armed mobilization – the experience of violence in the Niger Delta offers a worst-case scenario of environmental degradation and local resentment leading to chronic conflict.

The importance of these local issues has been acknowledged by the Ugandan government, notably in the proposed allocation of 7% of oil royalties to the oil-producing region, though questions remain about what percentage of overall revenue will be made up of royalties,[61] and how these funds will be spent. In Chad, 5% of revenues were allocated to communities in oil-producing regions, but have reportedly either not arrived or not been used effectively – one report states that only 3% of villages affected by production have seen benefits, despite the widespread disruption of agricultural production.[62]

Consultation is one way in which local tensions can be managed. In Ghana, NGOs and donors have worked together to develop a framework bringing together local civil society, oil companies and government for regular consultations – allowing accurate information to be disseminated, questions to be asked, and local tensions dissipated.[63] In Chad, a Framework for Consultation and Dialogue has been launched to bring together oil companies and affected communities. As noted above, initiatives run through EITI have also had success in opening space for local dialogue. These initiatives, though only nascent, also offer Uganda an interesting model for how local issues – from land to employment, environmental damage or the cost of living – could be addressed.

Local content (defined as 'local recruitment, training, purchases of local goods and services – that are designed to develop the industrial infrastructure and skills of the people in countries that host oil and gas projects') will also be vital.[64] The establishment of oil-specific training facilities, most importantly the Uganda Petroleum Institute, is a positive step towards building technical skills, key to ensuring that oil-related jobs are taken by Ugandans. But it will only result in the training of a comparatively small number of technical specialists, and cannot hope to match the demand for jobs, particularly among communities whose livelihoods have been directly affected by oil production.

The risks for Uganda of poorly understood spending decisions, both locally and nationally, are twofold. Most obviously, as highlighted above, the resulting popular disengagement from the political sphere increases the distance between the majority of the population and government, undermining the social contract and weakening the incentives for the governing elite to act for

61 Royalties are payments directly from oil companies, and do not include revenues from taxes and profit oil.

62 Begona Inarra, 'Oil Exploitation in Chad and the Local Population', Africa Europe Faith and Justice Network, October 2012.

63 The Ghana Local Governance and Decentralization Program is a donor-funded project working to increase public participation in local government. It has been developing a consultative framework for oil companies to discuss community needs with both government and local populations, in partnership with a local NGO called the Community Land and Development Foundation. More information can be found at www.colandef.com and www.logodep.org.

64 Total, 'Expanding Local Content in Our Industrial Projects', http://www.total.com/en/our-challenges/driving-shared-development-/our-actions/employment-and-economic-development/local-content-201060.html.

the long-term benefit of the majority. Secondly, in the absence of a widely understood, coherent programme of spending, all groups in society are likely to feel disadvantaged, particularly in a society with the latent ethnic and regional divides of Uganda, and to demand the ad hoc allocation of resources to meet their particular needs. As noted above, this could be particularly acute at the level of local communities in the oil-producing region. The result could be increased inter-group tension, friction and even violence.

5 Conclusion

The factors identified throughout this report are interrelated. A lack of transparency can increase public discontent. The resulting pressure on policy-makers to meet expectations can lead to spending on short-term or politically expedient projects rather that to meet long-term needs, resulting in waste and increased public discontent. The worst-case scenario for Uganda would be a downward spiral of popular confusion and unhappiness, a weakened economy, politically dominated management and deepening inter-group competition for a share of the take, particularly at a local level. It is a path that has been trodden by many oil-producing states, most notoriously perhaps Nigeria. Most Nigerians are significantly poorer today than they were at the start of the oil boom, despite the receipt of some $340 billion in revenues. Average incomes are less than one-third of what they were in 1980, and per capita GDP remains at about 1965 levels.[65]

But Uganda has time on its side. It is unlikely that production will start before 2016, with full capacity not reached until 2020 or later. Though oil has already begun to influence politics and society, the stresses that production and revenue flow will bring with them will not be fully felt for a decade. The debate on oil must move beyond the politics of the present.

Instead, lessons must be learned from those countries that have successfully managed natural resources, as well as those that have suffered as a result. 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 Uganda's agricultural sector, which is key to a positive future. The need to protect technical advice from political influence is vital in Uganda, as it is for 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.

65 Figures taken from Jason Hickel, 'Saving Uganda From Its Oil', June 2011, http://www.thoughtleader.co.za/jasonhickel/2011/06/16/saving-uganda-from-its-oil/.

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