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Natural Resource Governance, Development And Political Stability In The Great Lakes Region: Case Study Of The Oil Sector In Uganda

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Abstract

Discovery of significant oil resources in Uganda has been met with both optimism and skepticism. In as much as the country's government argues that the discovery and exploitation of the oil will be a boast to the country's development process, scholars, members of the political opposition and sections of the civil society contend that there is reason to fear for a possible *oil resource curse*. It is against this background that this study was undertaken, to scrutinize the content, process and implementation of the policies relating to exploitation of the oil—to determine whether these guarantee that the country will not suffer the resource curse. The study uses data generated from key informant interviews, which it augments with evidence culled from government publications, including policy documents and sector reports, and related literature. The study found that although the oil sector policies are comprehensive and were adopted through inclusive technical and political processes, implementation of these policies is not transparent. Hence the country could become a victim of the resource curse. Recommendations towards redressing this problem are made.

Introduction

Since attainment of political independence in the 1960s, the countries of the Great Lakes Region of Africa (GLRA) (i.e. Burundi, DRC, Kenya, Rwanda, Tanzania and Uganda) have struggled to achieve economic development. Notwithstanding, some progress that some of the countries have been able to realize as is seen from their socioeconomic indicators, most of them remain underdeveloped and majority of their citizens are trapped in extreme poverty (see, for example, UNDP, 2012).

Two explanations have been primarily advanced for the persistent underdevelopment of these countries. The first is that these countries lack the resources required to invest in infrastructural and human capital development, hence they are trapped in a vicious cycle of underdevelopment and poverty (Siggel, 2005). The second explanation is that the countries have failed to achieve development because they do not exploit their resources optimally for developmental purposes (Todaro & Smith, 2011)—because their leaders collude and make egocentric political settlements that result into plundering of the resources (cf. Eichstaedt, 2011). Meanwhile, groups that are excluded from such arrangements remain disgruntled and usually mobilize to cause political instability in a bid to compete over the right to control/exploit the resources (Lindemann, 2010). For example, in Uganda, Golooba-Mutebi and Hickey (2013) observe that this kind of politics has closely shaped the character and performance of institutions and actors responsible for delivering development since attainment of political independence in 1962. They note that successive political leaders and regimes sought to establish “dominant ruler” forms of political settlement, with little





sustained effort to depersonalize public institutions or build stable and inclusive political coalitions.

Over the last ten years, four of the GLR countries (i.e. Uganda, Kenya and Tanzania) have discovered substantial oil deposits. For instance, in Uganda, potential revenues from the oil that has been explored are estimated at \$148 billion (Lesedi 2010, NDP 2010). It is hoped that commercial exploitation of these oil resources could generate significant income that the countries could invest in infrastructure and human capital development (Collier, 2011; NDP 2010). Accordingly, discovery of the oil is seen as presenting enormous potential for the countries' economic development and poverty alleviation.

Nevertheless, the propositions of public choice theory give credence to the hunch that in as much as discovery of oil in the region presents an opportunity for the socioeconomic transformation of the region, it also presents threats in terms of the so-called oil-curse (Thorpe et al 2012; Jonathan Di John, 2007; Weisshaar, 2007; Bategeka & Matovu, 2011; Kiiza, Bategeka & Ssewanyana, 2011). This is especially so when the history of the countries' resource related conflicts and bad resource governance are taken into account. According to Lipsey and Crystal (1999), full blown public choice theory deals with three utility maximizing groups: 1) elected officials, who seek to maximize the votes they can get at elections; 2) civil servants, who seek to maximize the salaries they draw from the public purse; and 3) voters, who seek to maximize utility from social services. Consequently, there may be nobody to attend to the general interest of society and the interests of others in the investment of public resources.

In the context of oil in the GLRA, the groups in society that public choice theory identifies can usefully be categorized into two: 1) the elites (political leaders, civil servants, individuals owning large businesses and opinion leaders etc.); and 2) the populace. It is anticipated that the elites will govern the development of the oil sector and the utilization of its proceeds within the constraints of the political settlements that they make among themselves. Authors like Di John and Putzel (2009) note that developmental political settlements could manifest in the structure of property rights and entitlements, which give some social actors more distributional advantages than others in the regulatory structure of the state. Conversely, other settlements are narrow and, from the theoretical point of view of public choice theory, there is reason to fear that the elite may look out for their egocentric benefits from the oil sector, with the consequence of promoting corruption and environmental degradation (see, for example, Ako, 2013). In turn, this could lead to socioeconomic disparities and political exclusion, conflict, political instability and, consequently, persistence of underdevelopment despite exploitation of the oil resources.

Attainment of political stability and, subsequently, inclusive development requires that the political settlements on the oil resources reached guarantee implementation of policies that





attract the best returns from the oil sector and ensure that these returns are strategically invested in the promotion of economic development and poverty reduction (Bebbington 2013; Thorp et al 2012). Accordingly, there is need for up-to-date information about the political settlements relating to the oil sector that the political regimes in the region are making—to reach value judgments on the effectiveness with which the potential of the sector is being harnessed in favor of both political stability and economic development. Indeed, authors like Golooba-Mutebi and Hickey (2013) have highlighted need for rigorous studies on the way oil is being governed within the current political settlement; the way oil is reshaping the contours and functioning of the ruling coalitions; the ideas shaping the governance of oil and how the presence of oil is reshaping the political imaginary in countries of the region; the role transnational actors are playing and their impacts on the political settlement; the national–local and intra-local dynamics involved here, and the implications they have for the nature and functioning of the political settlement at different levels; and the implications oil has for inclusive development in the region.

However, survey of the literature leads to the conclusion that, hitherto, few studies have delved into these concerns. Currently, there are few comprehensive studies scrutinizing the oil sector related political settlements that the elites are making and implementing and the implications of these settlements for political stability, poverty alleviation and overall development of the GLRA. Moreover, even the few studies dealing with oil governance (e.g. ESID, 2011; Ako, 2013, etc.) that are available focus on countries outside the GLR.

This paper will report the findings of a study that was undertaken to plug this knowledge gap. Drawing on the case of Uganda's nascent oil sector, the study employed process tracing research methodology to respond to three research questions: What is the content of the political settlements relating to the oil sector policies that have been promulgated in Uganda? By what processes were these political settlements reached and to what extent were the processes politically inclusive? How are the oil sector related political settlements in Uganda being implemented and how is this linked to the country's economic development? Accordingly, the paper discusses the extent to which the oil resources in the region are being governed in ways that secure development, poverty reduction and political inclusion after which it propounds recommendations for policy and further research.

Methodology

The information presented in this paper was collected using interviews with leading politicians, top bureaucrats in the Ministry of Energy and Mineral Development, and leading researchers. These data were augmented with secondary evidence collected via a critical review of published literature, government documents and press reports. A key justification for using the key informant interviews was that the key informants interviewed are directly involved in the country's oil exploitation processes as lobbyists, representatives of key





constituencies or decision makers, so they are expected to hold particularly insightful and authoritative views that are relevant to understanding of the subject. Secondary sources were also consulted to triangulate the data from the interviews because some of government's positions have been reported and critiqued in these sources, meaning that they are also relevant to discourse on the subject. The field component of the study was conducted in 2013 and the first part of 2014. The data collected from the key informant interviews were recorded, after which they were transcribed and subjected to content analysis. Subsequently, some of the responses were edited for clarity and presented and the ideas that they pointed to highlighted and discussed.

Findings, Discussion and Conclusions

Content of the Political Settlements Relating to the Oil Sector Policies in Uganda

The national gas and oil policy for Uganda (2008) and Petroleum Exploration and Production Act (2000) embody the contents of the political settlements relating to the oil sector in the country. These include: 1) the country's goals and objectives for the oil sector; 2) the guiding principles for the development of instruments for the development and regulation of the sector; 3) and the roles and privileges of stakeholders in the country's oil sector. According to the policy, the country's goals are to: ensure efficiency in licensing areas with the potential for oil and gas production in the country; establish and efficiently manage the country's oil and gas resource potential; efficiently produce the country's oil and gas resources; promote valuable utilization of the country's oil and gas resources; promote the development of suitable transport and storage solutions which give good value to the country's oil and gas resources; ensure collection of the right revenues and use them to create lasting value for the entire nation; ensure optimum national participation in oil and gas activities; support the development and maintenance of national skills and expertise; ensure that oil and gas activities are undertaken in a manner that conserves the environment and biodiversity; and ensure mutually beneficial relationships between all stakeholders in the development of a desirable oil and gas sector for the country.

To promote attainment of these goals, the policy outlines seven guiding principles for the development of the country's oil sector: using the exhaustible oil and gas resources to create lasting benefits to society; manage resources efficiently; transparency and accountability; competitiveness and productivity; protection of the environment and conservation of biodiversity; co-operation with pertinent stakeholders; and capacity and institution building. The policy expounds on these guiding principles, demonstrating keenness to ensure that the oil resources are democratically governed in an efficient way that will guarantee the best returns for the country while at the same time avoiding the resource curse. In fact, the oil and gas policy discusses need to and makes provisions for amendment of the Petroleum Exploration and Production Act (2000)—to ensure its adherence to the aforementioned





guiding principles and, ultimately, realization of the country's goals in the oil sector as cited above. The document goes ahead to specify the roles and responsibilities of the different actors in the oil sector. Relating to this, it is noteworthy that roles are specified for a diverse range of stakeholders (including legislators, technocrats, local leaders, representatives of oil exploration and production companies, cultural leaders and even members of the grassroots). The inference here is that the contents of the political settlements relating to Uganda's oil sector are all inclusive, taking cognizance of the claims of all the relevant stakeholders. After all, upon careful consideration, it is notable that adherence to these guiding principles would go a long way in securing the oil-sector goals cited above, which are in themselves notably inclusive, showing care for the current and future generations.

Process of the Political Settlements Relating to the Oil Sector Policies in Uganda

Two key points discernible from the discussion on the content of the oil-sector related political settlements in Uganda are that: 1) the political settlements are forward looking and focus on emulating best practices from around the world with the view to ensure efficiency, profitable production and environmental conservation (mindful of oil's nature as a non-renewable resource); and 2) the political settlement aspires to be all inclusive, reflecting the views and interests of a diverse range of stakeholders in the country's oil sector. These are invariably strong components of the discourse on the country's oil sector. However, beyond the issue of these plans and aspirations, are the even more important issues of whether/ how they are actually implemented. It is against this background that this study traced the processes of the oil-related political settlements—to generate answers to questions in this regard.

The findings were that the oil-sector related settlements were originated by the ruling coalition, albeit pertinent stakeholders were provided with an opportunity to influence their ultimate content at different stages and in a number of ways. Specifically, the oil policy was drafted by the Ministry of Energy with input from international, community, expert and political stakeholders. Subsequently, the policy was discussed and endorsed by cabinet—to form the background to oil-sector related legislation. The Ministry of Energy (2008) recounts this process thus;

The National Oil and Gas Policy is a result of an intensive consultative process which started with the review of oil and gas policies from Algeria, Chad, Egypt, East Timor, Indonesia, Kenya, Libya, Malaysia, Mozambique, Nigeria, Norway, Pakistan, Russia, Sao Tome and Principe, South Africa, Tanzania, United Kingdom, USA and Venezuela. Three consultative meetings and workshops were held with technical staff of various government institutions between 25th-28th April, 2006; 17th-18th July, 2006; and 31st July-1st August, 2006 after which a working document of the draft policy was formulated.





The draft policy was then forwarded to representatives of local and urban authorities, cultural institutions in the Albertine Graben, civil society organizations and academic institutions for their review before participating in a two day stakeholder's consultative workshop held between 29th and 30th November, 2006. Many views received during the workshop were incorporated in the draft policy. It was presented and discussed at the Permanent Secretaries meeting held on 7th August, 2007.

Additional consultative meetings were held on 10th, 12th of August and 3rd December, 2007 in Hoima, Arua and Kasese respectively. The meetings were attended by area Members of Parliament, officials of the District Executive Committees and Council Members of the districts of Hoima, Masindi, Kibale, Bullisa, Arua, Nebbi, Moyo, Amuru, Gulu, Kabarole, Kyenjojo Bundibugyo, Kasese, Kamwenge, Bushenyi, Rukungiri and Kanungu.

Guidance was received from H.E. the President when he reviewed the draft policy with the Ministries of Energy and Mineral Development, Finance, Planning and Economic Development and Justice and Constitutional Affairs at State House, Nakasero on 25th September, 2007. A consultative workshop was held for Cabinet on 26th September 2007 in which the draft policy was presented for consideration before formal submission for approval. The comments received during these meetings enriched the policy immensely. The policy was approved by Cabinet on 30th January, 2008.

The foregoing shows that the process of formulating the oil and gas policy was technical, political and consultative. It was technical in a way that it drew on the expertise of a multidisciplinary experts in the related areas of mining, oil resources management and natural resources economics. Then it was political in a way that it drew the input of political leaders across the entire political spectrum in the leadership of the country, including councilors at the local council level, cultural leaders in the oil-rich Albertine Graben, members of parliament, cabinet ministers and the president. Finally, the process was consultative in a way that it did not only invite and integrate the views of people at the grassroots, but it also integrated insights drawn from the experiences of other countries that are involved in oil exploration and production across the entire continent, including those that are more developed and those that are not.

Implementation of the Political Settlements Relating to the Oil Sector Policies in Uganda

The Ministry of Energy is in charge of implementing the political settlements relating to the oil sector in Uganda. Implementation of the oil policy has been primarily through the passing of relevant legislation and concluding of Production Sharing Agreements with international oil exploration and production companies. Review of the oil policy shows that it touches on both these items. Specifically, the policy articulates need for amendment of the Petroleum Exploration and Production Act of 2000 to enable attainment of the goals the country is





pursuing through the oil sector. It also articulates need for and modalities for the consideration and determination of relevant production sharing agreements.

Two important achievements in the implementation of the oil-related political settlements are that the, Petroleum Exploration, Development and Production Act 2013 has been passed and various production sharing agreements signed (Musoke 2013). However, interviews conducted with members of Uganda's parliament early this year show that there have been two shortfalls in the implementation of the otherwise good and inclusive oil related political settlements. First, the members of parliament noted that although a generally good piece of legislation, parts of the Oil and Gas Law of 2013 required more critical consideration albeit the bill was passed hurriedly. In an interview with a Honourable member of parliament said that,

“The controversial Clause 9, which gives control over exploration and production licensing to the minister in charge of petroleum.”

Although respondents from the Ministry of Energy gave a counter argument, that there was urgent need to pass the law to provide a legal framework within which the oil operations would be regulated, a counter argument was that the debate and passing of the law were marred by influence pedaling and intrigue, with the result that the law was passed only hurriedly. Of particular contention, was the issue of the rights of the minister (of energy) in the conclusion of oil production sharing agreements, with skeptics fearing for the possibility of various forms and levels of corruption and their attendant consequences. One of the members of parliament talked to said that,

“retaining the controversial clause 9 in the act is only meant to advance the state's commercial interests in the oil sector.

The second problem cited in the implementation of the oil sector related political settlements is that discussion and sharing of the production sharing agreements are strictly secret. A major point of contention here is that when the final component of the oil process, namely, concluding of the agreements is done secretly, moreover in a legal dispensation where the minister is given a proportionately large amount of authority over the oil resources, corrupt tendencies may not be checked and the country's best interests may not be served. It is noteworthy that, when interpreted concurrently, the findings on the content, process and implementation of the oil sector policies in Uganda, it becomes apparent that the problem is with the implementation of policies that are otherwise well reached and inclusive. This appears to explain the widespread skepticism, dissent and concern relating to oil witnessed in Uganda's media (see, for example, Musisi (2014), Nakayi (2013) and scholarship on the oil sector in general (see, for example, Mbabazi (2012), Hickey (2013).





Recommendations

Therefore, the present study points to recommendations aimed at enhancing transparency in the implementation of the political settlements relating to the oil sector. The study appears to show that although Uganda has adopted very good policies and following an inclusive and consultative process, this is a necessary but insufficient condition for success in the oil sector and for preventing the oil curse. It is recommended that government gives itself to transparent execution of the sector policies as the sufficient condition for success in the sector. At the present stage, it is recommended that government discloses the production sharing agreements that have been reached. After all, this is in line with the provisions of the access to information act. This will help to give contentment to those involved in the process of developing the policy that indeed, their views are being carried through and their interests catered for as promised in the policies. It may also help to ensure that rectifiable gaps are highlighted for redress. And now that the Petroleum Exploration, Development and Production Act 2013 is already in place, it is recommended that the ministry of energy reconsiders some of the voices that may not have been given expression when the bill was debated. These might form part of future amendments that will be aimed at overcoming the shortfalls in the oil sector that this study highlights among others.

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