

AVOIDING THE RESOURCE CURSE DILEMMA: THE DISCOVERY OF OIL AND NATURAL GAS IN UGANDA

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SYNOPSIS

Since 2006, Uganda has made several oil and gas discoveries and the government hopes that the development of the sector will transform Uganda from a low-income into an upper middle-income country by 2040 and from a net importer to a net exporter of oil and its products with wider regional benefits. The oil and gas discoveries have led to high expectations for many institutions, communities, and individuals with reference to poverty-eradication development. Of particular concern for Uganda is that in Africa, countries dependent on oil and gas have tended to have weaker long-run growth, higher rates of poverty, and higher inequality than non-mineral-dependent economies at similar levels of income - a situation that amounts to a resource curse. The paper discusses the possibility of avoiding the resource curse dilemma following oil and natural gas discoveries in Uganda. It is argued that the resource curse is not an economic inevitability, but the result of the governance challenges surrounding effective policy implementation. One often neglected possibility is that resource windfalls will damage countries that are initially susceptible to rent-seeking or institutional erosion, while countries with strong institutions will ride out and prosper from resource booms. Di John, (2011) views poor economic performance in the context of oil abundance and booms as outcomes of institutional arrangements, and the way that mineral rents are used is a by-product of the political struggles and the ruling class's orientation at the time they are earned. Uganda stands to benefit from oil if the Government embraces transparency. Uganda can avoid the oil curse by improving information flow to concerned stakeholders, systematically combating corruption, as well as ensuring that growth is equitable, and that the oil and gas resources are used sustainably.

1. Introduction

This paper discusses the possibility of avoiding the resource curse dilemma following oil and natural gas discoveries in Uganda. The negative correlation between resource endowments and Gross Domestic Product (GDP) growth remains one of the most robust findings in the empirical growth literature,

and has been termed the "resource curse hypothesis" (Bulte, Damania, & Deacon, 2004).

Uganda is governed under a multi-party system of governance and has a constitution that was enacted in 1995. In the year 2006 when commercially viable oil deposits were discovered in Uganda, the country held competitive multiparty elections, even in 2011 as well as 2016, and although there has yet to be a

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democratic transition of power, the principle and practice of democracy are increasingly entrenched.

Much as in 2008 Uganda's President Yoweri Museveni announced to the world that Uganda would soon become a global oil player, other stakeholders, such as the citizenry and the general media seemed to let out a rather large sigh. The resource curse is a spectre that all Ugandans wish to avoid (Shepherd, 2013). Kazakhstan has had considerable revenues from production of oil and gas. However, more has been spent on Pharaoh-like projects such as the new capital Astana than on healthcare or education, the economy remains undiversified with manufacturing stunted by an over-valued currency. The mechanism at play is such 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.

If susceptibility to the resource curse is dependent on institutional strength, Uganda might be particularly vulnerable to the detrimental side effects from oil revenue. There is a common temptation to respond to new natural resource revenues by raising public sector wages. However, it is necessary to weigh the long-term implications of wage rises against projected natural resource revenues. For example, in Uganda, raising salaries by 25 per cent would use up nearly a third of projected new natural resource revenues over the next 30 years (Henstridge & Travis, 2015). Growth in the Uganda manufacturing sector has picked pace after a contraction in the financial year 2012/13, and is now estimated at 4.1 percent. Cement manufacturing is one of only two sectors (the other being security) among twenty five which are meeting oil and gas standards and have a quantity gap of less than 10 percent. According to Nyamugasira (2014) a challenge arises of a two-speed economy in Uganda with the informal, unregistered, and untaxed sector still dominant and booming. When compared with their non-resource

dependent counterparts, nations that are dependent on natural resources, have tended to experience slower overall economic growth. Connections have been made of an abundance of natural resources to high levels of political violence and the use of resource rents by ruling parties to maintain their hold on political power. Not all states, though, fail with abundant natural resources. However, based on the interviews conducted and the media, it appears as though, Ugandans are more skeptical, rather than optimistic when it comes to oil. Uganda at the time of oil discovery (2006) had steady GDP growth at about 8% per annum during the period 2001/2 – 2008/9. Although Uganda in these years recorded an impressive export diversification and significant increase in export earnings, manufacturing contributed less than 10 % of the GDP and remained relatively small. The growth of formal manufacturing has faced severe strains and constraints like bad roads as well as lack of favourable long term financing. Overall the GDP growth has been considered as too modest to enable attainment of many of the other development goals given that Uganda's agriculture, manufacturing, and export base remain fragile. According to Shepherd (2013) 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. 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 the oil and gas deposits.

The interplay between politics and oil wealth is critical because various political and social variables mediate the relation between resource wealth and particular development-outcomes. In order for the oil production to positively contribute to sustainable economic growth and development and to ensure that all spheres of society enjoy the

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benefits, the right policies have to be designed and adopted well in time (Kamp, 2012).

The oil and natural gas industry can help Uganda to promote robust growth in the economy. However, it is important to keep in mind that it will take a number of years until substantial oil revenues start flowing into Uganda's economy. In the meantime, there are immediate opportunities opening up for Uganda's businesses to supply the oil industry with goods and services. Since mainstream activities require heavy financial investments and expertise, the local companies are advised to form public-private partnerships with international companies.

Small and Medium Enterprises (SMEs) usually need to scale up their businesses significantly and/or buy specialised equipment to meet the high quality standards needed to participate in such a capital intensive and quality conscious industry such as oil and gas. However, securing financing is a challenge for SMEs, as many do not know the basics of the process, including how to prepare a business plan, which is required by financial institutions (TRALAC, n.d.). CNOOC Uganda Limited, Total E&P Uganda, and Tullow Uganda Operations Pty Limited have over the years demonstrated their commitment to National Content development in Uganda. This has been accomplished by engaging with the local business community through supplier expansion and contracting activities and by employing and training Ugandans through scholarships for advanced level education and support to tertiary institutions.

Hon. Elly Karuhanga, Former Director at Tullow Uganda Operations Pty asserts the need for cordial and fruitful cooperation between the Government of Uganda and the private sector. He emphasises the need for building the capacity of skilled workers in order to fully exploit the economic potential of the oil and natural gas sector.

The Governor of Uganda's Central Bank, Emmanuel Tumusiime-Mutebile cautions against the expanding public spending tied to expected petrol

earnings. He says that: "If government were to undertake such commitments and future oil revenues are too low, the government would face a fiscal crisis".

The objective of this paper is to examine gaps in the policy, institutional and regulatory frameworks that need to be addressed to advance the oil and natural gas sector in the Republic of Uganda so as to avoid the resource curse dilemma. The ultimate goal is to inform recommendations for improving the effective utilization of Uganda's oil and natural gas resources.

The study involved face-to-face interviews with key focal persons from institutions and agencies dealing with oil and natural gas issues, identified as, Government, Development Partners, Civil Society Organizations, Private/Business sector and University/Research bodies. Interviews were complemented by desk-based research in reviewing documents and analysing major policy, institutional and regulatory interventions in the form of actions and arrangements.

The paper is organized as follows. Section 2 gives a presentation of the Ugandan Case Study, while section 3 discusses outcomes and provides an overall assessment of the Ugandan Case Study. Section 4 sums up with the lessons learnt including policy implications.

"Uganda's National Oil and Gas Policy (NOGP), approved by Cabinet in February 2008, promotes high standards of accountability in licensing, procurement, exploration, development and production operations as well as management of revenues from oil and natural gas."

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2. The Case of Uganda

The Gross Domestic Product (GDP) per capita in Uganda was recorded at 1,638.47 US dollars in 2014, when adjusted by purchasing power parity (PPP). The GDP per capita, in Uganda, when adjusted by Purchasing Power Parity (PPP) is equivalent to 9 percent of the world's average. GDP per capita PPP in Uganda averaged 1018.99 USD from 1982 until 2014, reaching an all-time high in 2014 and a record low of 514.67 USD in 1986.

The oil companies in Uganda are keen to begin oil production. The Government of Uganda faces mounting pressure to resolve the refinery impasse on which oil production is hinged, with Ugandans hungry for the development oil money could bring. Now that the petroleum legislation is in place, the refinery is the missing piece in the oil production equation (Naresh, 2012).

Uganda has a variety of government bodies focused on eradicating corruption, which have ably prosecuted low-level corruption for small amounts of money. However, these bodies have been largely ineffective in curbing grand scale corruption. In one, 2011 Parliamentary session, Hon. Gerald Karuhanga accused then Foreign Affairs Minister, Sam Kutesa, Former Prime Minister Amama Mbabazi and former Energy Minister Hillary Onek of taking multi-million dollar bribes from the U.K based company, Tullow Oil. According to Muhumuza (2012), the three ministers were exonerated after they were deemed to be scapegoats. Amama Mbabazi has also been accused of corruption in other cases, notably the 2007 Commonwealth Heads of Government Meeting (CHOGM) scandal which entails rigging vehicle purchasing contracts, paying local construction firms for non-existent infrastructure projects, and funnelling money to hotels still under construction and never used for CHOGM activities. This led to estimated losses worth \$27 million. Donors responded gradually to the disappointing governance situation, including reducing budget support in response to failure to prosecute individuals implicated in the CHOGM scandal. Over

the years Ugandans have become increasingly sceptical of state sponsored corruption, with the 2007 CHOGM but one example of many hotly contested political scandals. Events such as the 2007 CHOGM spending scandal, demonstrate that Ugandans have little faith in their political leaders. It is not uncommon to read about bureaucratic and political corruption in Uganda on a daily basis in both local and international media. Nonetheless, the Uganda Government attaches great importance to the optimal management of oil and natural gas resources right from exploration, through production and investment of the proceeds. It will therefore, insist on transparency and accountability as well as balancing interests to ensure sustainable and inclusive management of oil and gas resources as part of the transformation process of the Uganda economy. There has been some attempt to improve transparency of oil contracts after some signed contracts were leaked and showed discriminatory treatment between investors and divergence from the legislation (Nakhle, 2015). Calculations by Lay and Minio-Paluello (2010) reveal that Uganda's contracts are highly profitable for the participating oil companies. In the most likely scenarios, Tullow Oil could make a 30-35% return on its investment. Even when stress testing profitability by modelling the least promising scenarios, such as a \$30 oil price, Tullow received a 12-14% Internal Rate of Return (IRR). Figure 1 below compares the rate of return that Tullow Oil is set to make from Uganda's contracts to the terms used in Kurdistan and in Syria. At a very low oil price of \$30 per barrel, Tullow will still make a strong return on its investment of almost 13%. However, at this price, the state is only receiving 61.6% of total revenues. This means that most of the price risk is held by the Ugandan state rather than Tullow. If the oil prices rise, it is Tullow, not Uganda, which captures the chance of ever-higher profits. At \$70 Tullow makes a rate of return of 26.5%, at \$120 it is 36.3% and at \$180 the company makes 44.4%. The company's profits rise at a steady gradient with increased prices while Uganda fails to increase its proportion of total revenues. Tullow can continue to take one

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quarter of oil revenues, whether the oil price is \$100 or \$250-accruing enormous profits. By comparing a low cost scenario of \$1,735 million invested with a high cost scenario of \$4,545 million, it is discovered that as the costs increase, the government will lose a greater sum of money. The state's discounted revenues fall by \$500 million, while Tullow's fall by only \$300 million. If non-discounted, Tullow's total cash flow falls by \$700 million, but the state loses \$2.1 billion. In examining what Uganda's PSAs mean in terms of government take and corporate IRR, Uganda's loss in terms of government revenue will be the oil companies' gain.

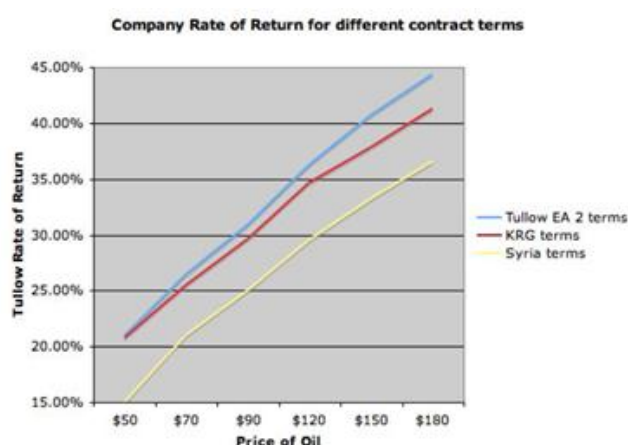


Figure 1. Company Rate of Return for different contract terms. Reprinted from *Contracts Curse: Uganda's oil agreements place profit before people* (p. 14), by T. Lay and M. Minio-Paluello, 2010, London: PLATFORM

Uganda's National Oil and Gas Policy (NOGP), approved by Cabinet in February 2008, promotes high standards of accountability in licensing, procurement, exploration, development and production operations as well as management of revenues from oil and natural gas. The existing measures in that regard are disclosure of payments and revenues from oil and gas using simple and understood principles in line with accepted national and international financial reporting standards. Through competition among licensees, operators, and suppliers, cost effective choices can be

achieved. Competition enables selection of the most capable operators, the most efficient, the best quality, and the most reliable suppliers thereby ensuring high levels of productivity. It is this that justifies the principle of open bidding (Republic of Uganda, 2008).

The Government of Uganda signed a Memorandum of Understanding (MoU) on the Sustainable Development of the Discovered Petroleum Resources in the Albertine Graben with the Licensed Oil Companies operating in Uganda, namely: CNOOC Uganda Limited (CUL), Total E&P Uganda B.V. (TOTAL), Tullow Uganda Operations Pty Limited (TUOPL) and Tullow Uganda Limited (TUL).¹ Ultimately improvements should be registered in the Ugandan economy given that the oil companies will be in position to begin large scale development of the crude fields as soon as production licenses are issued. The three companies alone, CUL, TOTAL and TUOPL, are expected to invest more than \$10 billion to develop the oil fields in the Lake Albert Rift Basin.

2.1 The effect of Oil and natural gas discovery on the Ugandan economy

Section 7.2.1(c) of the NOGP provides that Parliament should be in charge of "monitoring performance in the petroleum sector through policy statements and annual budgets". One of the approaches proposed under Uganda's petroleum laws is procurement of goods and services from Ugandan suppliers. Multiple national content support initiatives are already underway. These include, inter alia, the establishment of the Industry Enhancement Centre (IEC), documentation of Oil and Gas quality standards, communication of International Oil Company demand, and simplification of processes of business registration and licensing. As such most of the constraints facing the private sector are currently being addressed to some extent. Under the Petroleum (Exploration,

¹ The conclusion of the MoU is a significant step for Uganda as it gives a roadmap for the commercialisation of oil and gas resources discovered in the country.

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Development and Production) Act 2013 (Upstream law), an applicant for a production licence must include satisfactory proposals with respect to procurement of goods and services obtainable within Uganda. Former Total E&P general manager, Loic Laurandel said that Total E&P had already been involved in promoting national content. For instance the main contracts regarding logistics support, camp management, lifting services, aircraft transportation, and local transportation on site had been awarded to local companies with 100 percent Ugandan ownership. With foreign companies such as Total E&P engaging with local companies in the course of oil production within Uganda, the status of the country in the international market is expected to improve. The value of procurements from Ugandan service providers in the oil and natural gas sector for the period 2010 – 2013 amounted to USD 329.9 million. This represents 28% of the total spending for all the oil companies (USD 1,171.8 million). Overall, the proportion of Ugandans employed in the oil and natural gas sector directly by the oil companies rose from 69% in 2012 to 80% in 2014. However, according to Olini (2015) some graduates say that “even opportunities for volunteering are hard to get”, as the number of expatriates employed by the oil companies seems to be unquestionable by the government yet some of the duties performed by the so-called exceptional foreign staff can be performed by Ugandans. The expectation is that the oil and natural gas sector will increase national income, consumption, and investment. The total investment in Uganda’s oil and natural gas sector over the next five years is expected to exceed USD 10 billion, mainly in field and infrastructure (pipelines and refinery) development. An Industrial Baseline Survey conducted by CNOOC, Total and Tullow pointed out that at least 15,000 jobs would be created directly while another 150,000 were projected to be created indirectly at the peak of oil production (Muhumuza, 2015). Due to the speculation of oil revenues, the mid-western part of Uganda where the oil was discovered has

experienced an increased demand for services such as banking, accommodation, food and transport.

2.2 The effect of Oil and Natural Gas discovery on Democracy in Uganda

Political party activities had been banned in 1986 following the introduction of a “no party” system (known as “The Movement”) by President Yoweri Kaguta Museveni – a former guerrilla leader who came to power as head of the National Resistance Army earlier the same year. This “no-party” system, President Museveni argued, was to prevent the re-emergence of the divisive, tribal, multiparty politics that allegedly paved the way for the bloodshed under the former presidents Milton Obote and Idi Amin between 1966 and 1986 (Schenkel, 2012).

During the early days after emerging from decades of political turmoil, Uganda privatised most of the public enterprises in the early 1990s. The switch from the ten-point program (largely oriented toward President Museveni’s earlier socialist ideas) to structural adjustment (fully supported by the International Monetary Fund and World Bank) surprised many Ugandans.

In 2003, Uganda took another step towards ending a 17-year ban on political activity when 3,000 delegates at the ruling “Movement’s” National Conference backed moves to restore pluralism (Creamer, 2003). A huge majority of Uganda’s voters (92.5%) supported restoring multiparty politics in a 2005 referendum. Internal and international pressure for more democracy changed the position of President Museveni, who for years opposed political parties. Uganda’s democratic credentials stand to be tested in light of her oil and natural gas discovery.

President Museveni’s critics are concerned that he may want to rule for life and accuse him of running an authoritarian government. The critics allege that the National Resistance Movement (NRM) government is using a range of tactics including harsh legislation to intimidate the opposition. President Museveni now faces fierce competition from an opposition emboldened by his old age and

by his diminishing prestige within the NRM party. Some of the NRM party Members of Parliament (MPs) in alliance with opposition MPs are using oil governance inadequacies as a point at which to plan the internal ousting of the long-standing president. Several governance issues related to avoiding the resource curse are before the Uganda parliament and will undoubtedly become election issues in 2016 as potential candidates vie for political advantage. Underlying the call for improved governance is the fear that Uganda will experience the same “natural resource curse” that has plagued most resource-rich African nations. This serves as a clear red-flag for future governance of the oil and natural gas industry. The important of these governance issues are the need to assure the proper fiscal management of oil royalties through transparency and accountability.

2.2.1 Transparency and Accountability

The Ugandan president is seen in many ways as representative of an older generation of politicians who refuse to accept genuine accountability to democratic institutions. President Museveni faced an almost unprecedented backlash from parliament over his refusal to disclose the details of production-sharing agreements. Despite existence of a parliament, the scope of permissible presidential behaviour has widened resulting in substantial abuse of executive authority. The Central government made a costly purchase of sophisticated Russian fighter jets, tanks and other military equipment at \$740 million, withdrawn from the Central Bank without prior approval from parliament and was excluded from the defence budget. Current regulatory frameworks offer few satisfactory provisions for parliamentary oversight or to eliminate conflicts of interest when politicians hold business interests in the oil and gas sector. While the laws and policies in Uganda indicate efforts to open up the decision making process to the public influence, this is not the case in the oil production sub sector, which remains secretive as is accounted for by the culture of secrecy with government bodies as well as the politics of

patronage (Schwarte, 2008). Government secrecy on oil and gas matters has created mistrust among Ugandans about the sector. Justification for the high level of secrecy revolves around state security. It is true, states, like individuals, need secrecy if they are to avoid being exploited in all their dealings.

On December 11th 2015, the United States Securities and Exchange Commission (SEC) voted to propose rules that would require resource extraction issuers to disclose payments made to the U.S federal government or foreign governments for the commercial development of oil. The proposed rules, mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act, are intended to further the statutory objective to advance U.S. policy interests by promoting greater transparency about payments related to resource extraction. Two oil companies that work in Uganda-Total and CNOOC-trade on U.S. stock exchanges, which means that they are required under the Dodd-Frank Act “Publish What You Pay” component to disclose to the SEC-and to the worldwide public-detailed information on their transactions with the Ugandan government for the commercial development of oil. Initiatives like “Publish What You Pay” or the Extractive Industries Transparency Initiative (EITI) further demonstrate why information should be made public given that the more information that is made available, the more accountable the public can hold the government. The EITI supports improved governance in resource-rich countries through the full publication and verification of company payments and government revenues from oil, gas and mining (African Union, 2009). Although Uganda has in principle committed itself to EITI membership, it has not taken any steps yet to become included. Full cooperation with initiatives such as the EITI will help to build popular confidence in overall revenue management, particularly with regard to supervision of payments made by foreign investors to the government (Control Risks, 2012). Given that transparency is vital, with accurate and reliable information, the

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government can turn the negative perceptions into optimism (Mbabazi, 2013).

3. Outcomes and overall assessment

Since the discovery and confirmation of commercial petroleum resources in Uganda in 2006, the country has been a “hybrid” state where a veneer of democracy has been underpinned by a semi-authoritarian patronage-based regime. Government-donor relations have deteriorated over the last decade with the government of Uganda hampered by widespread corruption challenges. The legal system is working for justice among the population of Uganda, and the media has widely discussed contentious issues among them the legislation governing the oil and natural gas industry.

Expectations from a number of sectors in Uganda have been shooting up and planning is underway for how the oil and natural gas revenues will be put to use. Comparative analyses conducted internally by the Government of Uganda show that the Production Sharing Agreements (PSAs) are favourable given the provision for taxation of oil profits at 30% based on the Income Tax Act. Tullow boss, Aidan Heavy, acknowledges that in recent months, the Government of Uganda has proposed welcome and necessary changes to its tax regime for oil and gas investments which, it is hoped, will enable substantive progress to be made towards the sanction of the Lake Albert oil development. Despite the fact that global oil prices fell to a five-year low of USD 50 a barrel, Uganda should be ready for the production of first oil around 2020. The Government of Uganda has exercised its right to participate directly in the oil and natural gas industry by opting for a 15% share in the Production License so far awarded. This means that after the royalties and costs have been deducted, Uganda will profit through the sale of the oil in light of her shareholding in CNOOC.

Uganda’s petroleum policies and laws propose an approach of procurement of goods and services from Ugandan suppliers only if they are competitive

in terms of quality and timely supply. Uganda’s businesses are just beginning to get involved in the oil and natural gas sector and this may hinder their ability to compete with the foreign companies. As such, there is need to have particular services and goods designated for supply only by Ugandan business entities and those which cannot be supplied, can be left for foreign companies subject to periodic reviews. Furthermore, compliance with national local content plans as well as the development of national capacity should be monitored.

Over time, the reserves of oil in Uganda have attracted large extractive investments to the country. This indicates that oil will be a central feature of Uganda for decades. Oil and gas megaprojects have an especially long investment horizon, increasing the chances that the business environment will change.²

With the discovery of oil and natural gas in Uganda, the political elites and major businesses are anticipating the profits these discoveries will generate, putting oil recovery and production on a virtually unstoppable path in the Albertine Graben region. Through a mechanism for the political elites to capture oil rent by legitimizing policies that play favourites and privilege particular major businesses, the political elite may have little incentive to support linkage development for major businesses if they are without much political importance for the survival of the political elites. In the recent past a desire to start oil production before more exploration, has been the unofficial strategy of the government of Uganda. This is so because since oil was discovered in commercial quantities in 2006, there has been a standing criticism that Uganda has taken too long to turn its reserves into commerce. The discovery of commercially viable oil by Tullow Oil in Kenya announced on 26th March, 2012, gave rise to the so-called “petro-rivalry” in the East

² Pricing assumptions may change as demonstrated by the recent drop in oil price, placing margins under increasing pressure, or there may be higher-return alternatives, made possible by advances in technology.

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African region. In recent months, the government of Uganda has proposed welcome and necessary changes to its tax regime for oil and gas investments which it is hoped will enable substantive progress to be made towards the sanction of the Lake Albert oil development, hence Tullow Oil agreeing to pay the Ugandan government a \$250m (£158m) settlement, bringing to an end a two year dispute over capital gains tax.

So far, Uganda has been able to operationalize the Petroleum Fund. Section 56 of the Public Finance Management Act, 2015, set the stage for putting in place a sustainable asset in the form of a Petroleum Fund to hold oil related revenues, from which any excess monies that are not required for budgetary purposes will be invested in the markets. The progression of pension sector reform as well as the deployment of excess oil revenues into the markets should also create greater demand for equities, thereby providing support for a surge in share prices. In June 2015, the Government of Uganda opened two accounts (in Uganda Shillings and US Dollars) to receive all oil related revenues. In June 2015, USD 36 million was received as part payment of the USD 250 million capital gains tax (CGT) liability from Tullow. This sum includes USD 142 million received in 2012 and USD 108 million to be paid in three equal instalments of USD 36 million in 2015, 2016 and 2017. During the year, an amount of UGX 1, 607,814 million was transferred from the Oil Tax Revenue Fund to the Uganda Consolidated Fund. This balance relates to an amount of UGX 1, 161,737 million from Tullow Oil paid to the Government of Uganda for the settlement of a tax dispute between the Government and Heritage Oil & Gas (U) Limited. It also includes stamp duty of USD 171 million (UGX 447 million) on sale of Tullow Oil's assets to Total and CNOOC. In addition, the bank received USD 36 million (UGX 119,057 million) on 22nd June 2015 on behalf of the Government of Uganda, relating to Tranche 1 Tullow Oil tax settlement. During the Financial Year 2014/15, UGX 1, 612,080 million relating to the oil tax revenue collections was transferred to the Uganda Consolidated Fund, where all tax receipts are

credited and appropriations made. As such, oil related revenues already have an impact on the Ugandan economy, what with the Government of Uganda being able to collect more revenue as of taxation at a steady rise.

Of critical concern, though is the relationship between the oil related revenues received by the government, and the appropriation of these revenues. Boom-bust cycles as in Venezuela, the Permian Basin as well as Russia have been experienced under earlier oil price fluctuations: High levels of expenditure in good years have been followed by deep cuts in bad years. Boom-bust cycles in revenue are amplified by boom-bust cycles in government expenditure. A strong role is carved out for parliamentarians to hold the government of Uganda accountable through a Charter of Fiscal Responsibility. The charter of fiscal responsibility supports fiscal policy formulation and transparency, including the preparation for oil revenue management. The bulk of the income accruing to Uganda from oil will, in the first place, accrue to Government in the form of oil revenues of various types such as royalties and income tax. In this regard, Government will have more resources to spend on public services and public investment.

Uganda will need to address a host of policy issues ranging from capturing and harnessing the resource revenues, determining how they are spent or saved abroad. The Ugandan authorities favour using the oil revenues to build much-needed infrastructure since this could have very large benefits. Prospects for the development of Uganda's oil sector remain positive in light of three active exploration licenses and one production license under a joint partnership of three international oil companies (CNOOC, Total and Tullow) as well as the licensing round for six blocks in an effort to attract new companies in the exploration phase. This, it is argued, will lead to continued strong foreign direct investment and other financial inflows, with a positive effect on the exchange rate (Government of Uganda, 2015). Government economists generally argue that Government's oil revenues

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should be used to accumulate assets, but these assets can be physical, human or financial and the optimal balance is likely to change over time. Higher investment in physical infrastructure, for instance, is one way to save for future generations, and may be more appropriate than transferring a large share of oil revenue into an offshore fund, at least in the initial years of oil production.

Developing country governments that have received substantial revenue from natural resources are faced by choices between consumption, domestic investment, and the accumulation of foreign assets. Capital-poor countries cannot afford to invest much in infrastructure. Oil revenues can be used to finance priority domestic investments crucial for diversified growth. There is a risk, though, that something might not go according to plan. There could be political and economic activity focused on getting a share of oil revenues rather than promoting economic and social development. To illustrate this, the oil industry, both Russian and international, contributed large sponsorships to the 2014 Sochi Olympic Games, the most expensive in history. Some reports estimate that a third of the money spent was lost through corruption. Thus, opening up for priority domestic investments calls for an increase in efficiency, as well as a decrease in discretionality and corruption.

4. Conclusion and Policy implications

This paper has examined the avoidance of the resource curse dilemma in light of the oil and natural gas discoveries in Uganda. The Government of Uganda has demonstrated a determination to ensure that Uganda's oil and gas industry makes a clean break with the negative legacy in Africa by making the natural resources work equitably for the country's peoples. Unfortunately, penetrating the oil and gas sector in Uganda seems impossible. Some graduates say that "even opportunities for volunteering are hard to get", as the number of expatriates employed by the oil companies seems to be unquestionable by the government yet some of the duties performed by the so-called

exceptional foreign staff can be performed by Ugandans.

I have reached a number of conclusions and raised policy implications regarding actions that can be taken to facilitate the avoidance of the resource curse dilemma in Uganda. If information sharing is not endangering national security interests, then it is needed in order to ensure that the general public understands and contributes to the general oil and gas debate in a responsible manner that does not create or exacerbate conflict. One step that can be taken is leveraging government entities to improve information flow to concerned stakeholders.

A number of further steps can be taken. Uganda's oil and gas sector has already been tarnished by allegations of bribery that emerged concerning government bigwigs, which cast an air of suspicion over the integrity of the government in its handling of contract negotiations and revenue management. The state needs to systematically combat corruption. Questions abound how the government could be trusted to work with oil revenues when it had a proven track record of corrupt practices even outside the oil and gas sector as in the Commonwealth Heads of Government Meeting 2007 (CHOGM) scandal involving high-level officials and politicians. The behaviour of many bureaucrats shows a great deal of mistrust and possible wrong doing or cover up by the state actors.

A conclusion can be made on whether the government made a good deal on the contracts signed with the oil companies, given that Tullow Oil could make a 30-35% return on its investment yet under risky circumstances oil companies will require an internal rate of return between 15 and 20 per cent, with everything over 20 per cent representing an astounding profit rate. This calls for renegotiation of existing contracts, albeit with financial capability and human resource capacity improved beyond the current negotiating capacity of government, thus ensuring that future contracts for new blocks and the model Production Sharing Agreement (PSA) used in talks with

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investors are changed to better protect Ugandan interests.

Uganda should make ensure that growth is equitable, and that the oil and gas resources are used sustainably. The Government of Uganda has embarked on this path and overseen the creation of the Petroleum Authority of Uganda as well as the Uganda National Oil Company.

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