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RIGHTING RESOURCE-CURSE WRONGS IN UGANDA: THE CASE OF OIL DISCOVERY AND THE MANAGEMENT OF POPULAR EXPECTATIONS

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1. Introduction

This paper discusses the management of expectations associated with the recent discovery of commercializable oil in Uganda. Our motivation is simultaneously theoretical and pragmatic. Theoretically, resource abundance oftentimes begets a natural resource-curse, that is, the tendency for resource-rich countries to attain poorer developmental outcomes than resource-poor countries (Auty, 1993; Collier et al, 2004). Practically, oil development in Uganda appears set to create winners and losers. Four categories of winners are spelt out in Uganda's Oil and Gas Policy – the central government; the oil companies; the district local governments of the oil-rich areas; and the land owners. The oil-rich lands have not been nationalized to make all Ugandans winners. Bunyoro-Kitara Kingdom (hereafter: 'Bunyoro Kingdom') also complains that it has been left out. Yet, it has a historical and cultural claim over the oil-rich lands. Sections of the local community, whose environment could be contaminated by oil-spills, are also concerned that no context-specific environmental safeguards have been developed.

More importantly, concerns have been raised over the production sharing agreements (PSAs). Signed between Uganda and the oil companies, the PSAs have been a 'closely guarded secret' (Lay et al, 2010: 5). Philip Daniel of the IMF Fiscal Affairs Department asserts that the PSAs favour Uganda vis-à-vis the oil companies.[2] An off-the-record government interviewee concurs. In his view, the Mining Act is likely to guide the proposed petroleum law, and the oil revenue sharing formula is likely to be: 80 percent for Uganda; 17 percent for the oil companies and 3 percent for the landowners.

However, Lay et al (2010) reject as untrue Tullow Oil's claims that its contracts are the world's 'best deals' for the host government. According to Lay (2010), the oil companies will reap 'as much as 35% return on their capital investment. That is three times what is internationally

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[2] Remarks made at the National Seminar on Managing Oil Revenue in Uganda, Munyonyo Commonwealth Resort, Kampala, July 8-9, 2008.

recognized are fair profit.' Recent press reports have also dampened popular expectations. Ojambo (2010), for example, laments that Uganda will get only '15% of oil when production starts.' The lion's share will arguably be appropriated by the oil companies and land owners.

It is the object of this paper to examine the degree to which government is managing the positive expectations *and* the anxieties over what could go wrong. The paper is located in the resource-curse debate. We interrogate the claim by Lay (2010) and others that the ingredients of the 'resource-curse' are all in place in Uganda. This will be contrasted with government's view that the oil will be a developmental blessing, not a curse. Our ultimate goal is to contribute to the righting of resource-curse wrongs in Uganda.

The information presented in this paper was collected via a critical review of published literature, government documents and press reports. These were augmented with primary data collected via interviews with leading politicians, top bureaucrats in the Ministry of Energy and Mineral Development, and leading researchers. Additionally, we interviewed the top officials of Bunyoro Kingdom and members of Parliament representing Bunyoro's four districts (that is, Hoima, Masindi, Kibaale and Buliisa). We also held focus group discussions with fishing communities in Kyehorro (where Tullow is undertaking oil exploration). We completed our fieldwork with in-depth interviews with Tullow and Heritage Oil & Gas Co.

The rest of the paper is organized as follows: Section 2 highlights the evidence of oil discovery. Section 3 historicizes the oil discovery. Section 4 conceptualizes expectations management. Section 5 sheds some light on the resource-curse. The aim is to explain why resource abundance is a blessing to some countries and a curse to others. Section 6 locates the oil question in the Ugandan political economy. Section 7 outlines the anxieties and expectations of different stakeholders – the Democratic Republic of Congo (DRC); Bunyoro Kingdom, the district local governments, the area Members of Parliament (MPs) and the community. The paper ends with an outline of what needs to be done differently to immunize Uganda against the resource-curse.

2. Evidence of Oil Discovery

No commercial oil was flowing at the time of fieldwork in 2008. No oil revenues are expected until after 2013. And no company or state official knows exactly how much oil Uganda has, thanks to the incomplete exploration work. However great expectations have emerged since Hardman Resources Ltd (acquired by Tullow in 2007) made oil discoveries in the exploration blocks of Waraga 1, Waraga 2 and Mputa in Hoima District (Midwestern Uganda) in June 2006.[3] In October 2006, Uganda's longest serving president, Yoweri Museveni (1986 – to-date), held a national thanks-giving prayer. The aim was to thank God 'for having created for us a rift valley 25 million years ago;' for the successive layers of vegetation that metamorphosed into oil; and for giving 'us the wisdom … to discover this oil' (Uganda Watch, 2009).

Since 2006, the exploration activities by Tullow and other oil companies have led to major discoveries across the Albertine Graben, stretching from Block 5 (bordering Sudan) through Blocks 2 and 3 (Lake Albert basin) to Block 4 in the Lake Edward basin (Table 1). In February 2007, the Kingfisher well in Block 3A was found to have 200 million barrels of confirmed oil. In March 2007, Heritage Oil Company announced the results of its scientific tests on the Kingfisher well. The three intervals that were tested (ranging between 2,260m and 2,367m) had resulted in an overall cumulative maximum flow rate of 13,893 barrels of oil per day (bopd). Tony Buckingham, the CEO of Heritage, jubilated: 'The cumulative flow rate of 13,893 bopd from Kingfisher well has surpassed our expectations. The test results indicate the outstanding potential of the Kingfisher discovery… This is a very exciting time for Heritage, as these [discoveries] could transform this company' (Tullow Oil, 2007: 1).

But Kingfisher was only part of the story. In August 2008, oil was discovered in the Kasamene well, with confirmed high flow rates. In December 2009, Heritage announced a large oil discovery at the Buffalo-Giraffe exploration field, which is 9,000 square kilometers in size. This was perhaps 'the largest onshore discovery in sub-Saharan Africa' (Pagnamenta, 2009). Paul Atherton, the chief finance officer of Heritage, described the Buffalo-Giraffe field as 'unquestionably the largest onshore discovery made in sub-Saharan Africa in at least 20 years, possibly ever' (Pagnamenta, 2009: 1). All the 18 wells Heritage drilled in the basin had produced oil. Atherton's remarks fueled great expectations: 'Clearly the entire basin is full of oil… It is a world-class discovery, the most exciting new basin in Africa in decades' (Pagnamenta, 2009: 1).

[3] Uganda's Petroleum Exploration and Production Department (PEPD) has split Uganda's oil-rich Albert Rift into nine exploration areas, namely, Blocks 1, 2, 3A, 3B, 3C, 3D, 4A, 4B and 5. See Table 1.

By the end of 2009, about 2 billion barrels of 'oil equivalent' were estimated to exist in Uganda (NPA, 2010).[4] Some experts argued that this 'could be just a tip of the iceberg' (Xcroc, 2009: 3). It is not precisely clear how much of Uganda's oil is recoverable. But one thing is certain: the country is set to join the world's top 50 producers of oil. According to Sally Kornfeld, a senior US Department of Energy official, Uganda's 'reservoirs are incredible' and 'might rival [those of] Saudi Arabia' (Xcroc, 2009: 3).[5]

Table 1: Exploration Blocks in the Albertine Graben, Uganda

Block	**Exploration Area**	**Location**	**Operator**	**Partners**	**License Date**
Block 1	Pakwach Basin	Victoria Nile Delta & Albert Nile	Heritage (later acquired by Tullow)	Tullow	1 July 2004
Block 2	Northern Lake Albert Basin	Mid to North-east of the lake	Tullow	--	8 Oct 2001
Block 3A	Semliki Basin	Southeast of Lake Albert	Heritage (its 50% interest acquired by Tullow, 2010)	Tullow	8 Sept 2004
Block 3B	Semliki Basin	Southeast of Lake Albert	Open	--	Returned by Heritage in 2005
Block 3c	Semliki Basin	Southeast of Lake Albert	Open	--	--
Block 3D	Semliki Basin	Southeast of Lake Albert	Open	--	--
Block 4 A	Lake George & Kazinga Channel	South of Lake Albert	Open	--	--
Block 4B	Lake Edward Basin	Southwestern Uganda	Dominion (100%)	--	27 July 2007
Block 5	Albert Nile Basin	Albert Nile	Neptune	--	c2006?; extension: May 2010

Source: PEPD Data Base, Ministry of Energy and Mineral Development.

3. Pre-colonial and Colonial Roots of Oil Discovery

An important problem posed by the 'recent' discovery of oil in Uganda is the issue of attribution. Who should be credited for discovering the oil? This paper argues that oil discovery in Uganda has been a process, not an event. As Professor Kasozi (2010) notes, the claim that oil in Uganda

[4] This is the combined amount of oil and gas so far discovered.

[5] This claim must be independently verified. Saudi Arabia has the world's largest proven oil reserves estimated at 260 billion barrels, or 25 percent of the world's proven reserves. It has the world's largest crude oil production capacity of about 11 million barrels a day, and low production costs of $1-2 a barrel.

has just been 'discovered' is grossly inaccurate. Oil in the Lake Albert basin was really discovered by the native people of Bunyoro Kingdom.[6] The Banyoro natives observed the oil seeps in the Kibiro-Butiaba areas long before the advent of British colonialism in the nineteenth century.[7] The Banyoro discoverers faced one problem. Observation of seepages is one thing; confirmation of recoverable supplies is another. The Banyoro did the former, not the latter.

Notwithstanding the limitations of the native discoveries, local knowledge became the basis for oil prospecting under the colonial government. John Wayland, a geologist, explored the Lake Albert area in 1919. He 'recorded 52 hydrocarbon occurrences around Lake Albert' (Kasozi, 2010). In his 1920 paper and his 1925 report: *Petroleum in Uganda,* Wayland (2005) categorized the discovered substance as 'petroleum'. Wayland's work did not determine the existence of commercializable oil; but it generated great interest in Uganda's petroleum.

In 1920, five oil companies were granted exclusive rights to prospect for oil.[8] None of them confirmed the existence of commercially viable oil. But interest in the oil industry grew. In 1936 and 1937, the Investment Company of Johannesburg was granted a license to prospect for oil over an area of 2,574 square miles. The company studied the rocks in the Albertine graben, drilled two Wildcats (potential oil wells) but failed to strike commercial oil. The company gave up in 1940. World War II (1939-1945) interfered with oil exploration. However, technocrats of the colonial state scrutinized the geological data collected by the 'unsuccessful' companies. This

[6] At the height of its might, Bunyoro-Kitara Kingdom controlled virtually all the territory between Lake Victoria, Lake Edward, Lake Albert and parts of eastern DR Congo and northwestern Tanzania. The empire declined from the mid-sixteenth century and expanded again in the seventeenth to mid-eighteenth centuries. Bunyoro was a centre of innovation. It developed lucrative saltworks at Kibiro on Lake Albert, innovative ironworks that produced tools for production and warfare, and backcloth-making. Bunyoro also developed a standing army (*Abarusuura*). In the late eighteenth century, it declined due to internal weaknesses. Buganda (originally *Muhwahwa*, a county of Bunyoro) rebelled and, in the late eighteenth century, seized Kooki and Buddu regions from Bunyoro. Around 1830, Tooro also rebelled. To the south, Nkore (originally *Kaaro Karungi* of Bunyoro) and Rwanda rose into rival kingdoms of Bunyoro. By the time of British colonialism, Bunyoro was rapidly reclaiming its territories under the charismatic leadership of Omukama Kabalega (Nyakatura, 1973). This process was halted by the alliance of British colonial troops and Buganda. The alliance committed grave human rights abuses (such as the killing of about 2 million people) in Bunyoro. The discovery of commercializable oil is likely to reposition Bunyoro as a key player in the national political economy.

[7] Henry Ford Miirima, in his 2008 *Demystifying Oil Exploration in Uganda* argues that oil was discovered by the natives in 1909; but he does not cite the source of his evidence.

[8] The companies were W. Brittle bank; Chijoles Oil Ltd; Lord Drogheda Syndicate; Messrs Bird and Co.; and Messrs E. S. Grogan and Co.

data pointed to the existence of commercially viable oil. The Geological Survey Department continued prospecting for oil. Between 1947 and 1950, geologists R.C Pargeter, D.M Boyd, and F.R Wilson produced several reports on oil in Uganda. The colonial state suspended oil exploration in 1951.

The 1980s saw renewed interest in Uganda's oil. In 1983, under the government of Milton Obote II (1981-1985), an aeromagnetic survey was conducted over the Albertine Graben. This survey increased Uganda's stock of knowledge on the existing hydrocarbons. The Petroleum (Exploration and Production) Act, 1985 was enacted to regulate the upstream activities, particularly oil exploration and extraction.

The overthrow of Obote in 1985 did not kill interest in the oil. President Museveni confesses that soon after capturing power in 1986, he learned about the Albertine oil when Shell BP and Exxon approached him. The two oil companies wanted exploration rights over the Lake Albert basin. Their problem was the timing. The oil companies faced Commander Museveni who, in the 1980s, had a strong sense of economic patriotism. Fresh from a bruising guerrilla war (1981-86) that propelled him to power, the new leader was cautious:

I … called in the civil servants and mining scientists, first, led by Mrs Janet Opio, who was the Permanent Secretary in the Ministry of Water, Lands and Mineral Resources. I inquired from these civil servants whether there were people, in the whole of the Ugandan system, that were knowledgeable about petroleum. They told me that there was a petroleum expert in the Bank of Uganda. I requested them to bring me that expert. The 'expert' came one evening. First of all, he was not a Ugandan; he was a Ghanaian; and most amazingly, he was not a scientist at all. He was an economist who worked in Bank of Uganda on import papers dealing with petroleum products. [9]

The president refused to sign contracts with Shell BP and Exxon, suggesting the role of economic nationalism in righting resource-curse wrongs: 'I had nobody … who was knowledgeable [about] petroleum issues, and I did not want to sell Ugandans interests at all.' To prepare for oil development, government sent Ugandans abroad to pursue first degrees in geology, physics and chemistry. The aim was to prepare them for graduate studies in petroleum sciences. By 2006, Uganda had a core team of 25 professionals, 20 of them with Master of Science degrees in oil-related disciplines. It is this team that conducted the aeromagnetic and seismological studies

[9] Museveni, in Afrol News, Uganda Becomes Oil Producer, http://www.afrol.com/articles/21834, accessed 15 May 2010.

that greatly improved Uganda's stock of knowledge, culminating in the 'discovery' of commercializable oil in 2006 and beyond.[10] The process has, at best, been cumulative and, at worst, incrementalist. But how is Uganda managing the multiplicity of expectations and anxieties associated with oil discovery?

4. Conceptualizing Expectations Management

Expectations management is one of the inescapable challenges in modern governance. Expectations can be explicit or implicit, clear or fuzzy (Ojasalo, 1999). They can be realistic or unrealistic; evidence-based or opinionated. The literature identifies three major expectations management strategies – *laissez-faire*, exaggeration (or 'overselling'), and underreporting (Lindstadt and Staton, 2007: 2).

The *laissez-faire* strategy involves granting citizens the right to think, say or publish whatever they wish. In a technical field, such as oil exploration, the 'popular' cum journalistic views associated with a laissez-faire strategy are largely inaccurate (as in the claim by the Ugandan press that oil discovery in Hoima has resulted in 'land grabbing' by top army generals). This inaccuracy is largely attributed to the weak flow of information from government to the citizens; from technocrats to politicians; and from knowledgeable civil servants (who are, by tradition 'tight-lipped') to the journalists. Uganda's politicians and technocrats need to know that an information vacuum will certainly get filled with something.

The second strategy that has been commonly used is exaggeration. Also known as 'overselling', this strategy is largely used by populist politicians. Their aim is to mobilize political support, get elected and/or survive in political office. The risk lies in raising unrealistic expectations – such as the possibility of using oil revenues as a substitute for graduated tax.

The third expectations management strategy is underreporting. This is commonly used in advanced democracies where empty political promises are punishable via political withdrawal of votes. Underreporting or what Lindstadt and Staton (2007: 2) call the 'downward management of expectations' involves raising 'cautious optimism.' It involves mobilizing public support for the

[10] The scientists also drafted Uganda's policy on petroleum exploration and conducted negotiations with foreign companies. Their technical role has been positive; their ability to negotiate, flawed – as will be noted shortly.

system while, at the same time, communicating the challenges at hand. It requires sophisticated political skills (comparable to those of Barrack Obama in his 2008 struggle for the Democratic presidential nomination). Such skills are important because unmet expectations may backfire. They may trigger massive withdrawal of support and create doubts about the competency or honesty of the political leadership.

According to Lindstadt and Staton (2007: 2), the downward management of expectations is possible or even profitable. ‘By setting expectations low enough, officials can protect themselves against unanticipated failures and take advantage of unexpected successes.’

Positive and Negative Expectations

People’s expectations exist in two distinctive forms – the positive and the negative. In the case of oil discovery, the positive expectations are really hopes that the precious resource and the ‘windfall’ oil revenues will deliver substantial social, economic and infrastructural improvements. In the case of Uganda, some top politicians claim that poverty will be history once the estimated $2 billion in oil revenues begin flowing each year. Certain national, local government and community-level stakeholders are nursing hopes that a dense road and railway network will be built; education and health institutions will become world-class; and that household incomes will dramatically rise. Those that are tired of donors’ economic management lectures are sighing in relief. They hope the oil revenues will finance Uganda’s national budget and liberate the country from donor-dependence.

However, negative expectations (or anxieties) also abound, particularly over the high level of systemic corruption, which puts Uganda closer to resource-cursed Nigeria than resource-blessed Botswana or Norway. Thus, while optimists celebrate Uganda’s likelihood of becoming an OPEC powerhouse, skeptics urge caution. If the systemic corruption in Uganda’s public office is not disabled, oil discovery will beget a resource-curse.

5. Understanding the Resource-Curse

The term ‘resource curse’ was coined by Richard Auty (1993). But what it refers to – the tendency of resource-rich countries to have weaker economic performance than resource-poor countries – is not new. The ‘paradox of plenty,’ as the resource-curse is often termed, is embedded in the age-old maxim: *Necessity is the Mother of Innovation*. Resource-poor countries are forced to innovate and attain economic viability. By contrast, resource-rich countries suffer the paradox of plenty and remain poor. In simple terms, the resource 'curse' is a situation whereby abundance of tradable natural resources (such as diamonds, gold or oil) paradoxically leads to economic stagnation, the death of other traditional and non-traditional exports such as agricultural and manufactured products, and conflicts over the allocation of resources.

The resource curse is associated with eight distinctive problems. First is the national risk of entrenching a primary commodity economy that is dependent on God-given (or 'natural') advantages. Yet, globalization not only spells doom for economies that are 'stuck in the Garden of Eden' (Kiiza, 2006b: 8): it calls for the structural transformation of the national economy into a high value-added industrial and information economy.

Second is the problem of repositioning government as the key driver of growth (to the detriment of the private sector). Third, is the erosion of citizens' duties and obligations such as payment of graduated tax (because government is expected to use 'windfall' revenues to finance public services). Fourth is the problem of political instability (a la Nigeria, DRC or Angola). Fifth is the problem of 'leakages' or corruption, which is common in resource-rich countries (such as Nigeria) that have weak institutions of governance. Sixth is the risk of entrenching authoritarian rule or unaccountable governance.[11] Seventh is the risk posed by oil-related activities to people's health and, in particular, the possible negative effects of oil spills on fisheries and the environment. And eighth is the problem of exaggerated expectations. Knowledge of large revenues typically puts pressure on governments to spend. If this happens, fiscal discipline is breached to the detriment of long-term economic management.

The Economic and Political Science Views

Two variants of the resource-curse hypothesis exist – the economic and the political (Di John, 2007). The former is couched in the language of 'rent-seeking'; the latter revolves around the 'rentier state model.' The economic argument is that oil abundance (in developing economies) typically generates valuable rents that tend to trigger violent forms of rent-seeking – or 'greed-

[11] During our field interviews, anxiety was expressed over the 'secrecy' surrounding the licensing process and the signature bonuses; the level of corruption in public office; the poor quality of roads works and infrastructural investments; and the exclusion of different stakeholders (such as Bunyoro and researchers).

based’ insurgencies (Collier et al, 2004). Oil is particularly found to be relevant in secessionist wars. Oil abundance helps predict the type of war (secessionist or non-secessionist) that a resource-abundant country is likely to suffer.

The political science viewpoint revolves around the rentier state theory of governance and the associated level of accountability of the rulers to the citizenry (Karl, 1997). The claim is that when states gain a large proportion of their revenues from external sources [such as oil exports or foreign aid], there is reduced necessity of the rulers to levy domestic taxes. Three things happen. Oil states tend to be weak states with weak domestic institutions. For one thing, oil states ‘have less need to create strong bureaucracies to raise revenue’ (Di John, 2007: 292; Fearron and Laitin, 2003). Second, resource rich states tend to have limited capacity – or will – to create strong armies. As a consequence, they tend to be vulnerable to insurgency. Third, the leaders tend to be less accountable to their citizens. By extension, the probability of official corruption and authoritarian rule tends to be high in resource-rich countries (such as Nigeria, DRC or Uganda).

The economic and the political economy perspectives of the resource curse are united by one common denominator. And that is the view that abundance of natural resources ‘causes poor growth and raises the incidence, intensity and duration of conflict’ (Di John, 2007: 961). This appears to be a critique of the theory of comparative advantage. Economists inspired by Smith and Ricardo argue that resource-rich countries (such as USA, Congo and Uganda) have an advantage over resource-poor countries (such as Japan or Mauritius). The resource-curse proposition turns this view on its head. The claim is that natural resources may be more of a curse than a blessing (Auty, 1993; Sachs and Warner, 1995).

Some researchers uphold the resource-curse hypothesis. In their 2004 study of 161 countries and 78 civil wars over the period 1960 – 1999, Collier et al (2004), for example, observe that natural resource dependence – measured as a ratio of primary commodity exports to GDP – is significantly associated with the likelihood of civil wars. Three conclusions emerge from this study. Resource dependence increases the likelihood of conflict until the resource-GDP ratio is 32 percent; beyond this, it diminishes the probability of conflict. Second, an increase in resource dependence from zero to 32 percent tends to increase the likelihood of civil war from 1 percent to 22 percent. Third, the abundance of natural resources, particularly oil, in the export basket significantly increases the likelihood of secessionist wars. According to Ross (2004) 'there is good quantitative evidence that oil exports are significantly associated with the onset of civil wars' (quoted in Di John, 2007: 962).

Key Weaknesses of the Resource-Curse Argument

The resource-curse argument misses one key point, namely, that the real source of the 'curse' is *not* natural resources. It is economic *and* political mismanagement. This arises from weak state capacity to use 'windfall' revenues to build developmentalist institutions (such as roads and railways). It arises from weak domestic capacity to govern the national economy for long-term development. The 'curse' also arises from the inability to transform the national economy from primary commodity production to higher value-added industrial and information activities. Indeed, evidence shows that the link between oil and political violence is a result (*not* of resource abundance per se) but poor (read 'commodity-driven') economic growth, high corruption and authoritarianism (Wright and Czelusta, 2002). By implication, resource abundance begets poor performers in some cases, and good performers in others.

The 'Worst' and the 'Best' Performers

The abundance of oil, diamonds and metals in DRC, Angola, Nigeria and Sierra Leone has blocked, rather than promoted, economic transformation. Political stability has also suffered as rival claimants to the political economy have disagreed *violently* over the allocation of the abundant resources. In other words, resource abundance has been a curse rather than a blessing for these countries. By contrast, countries such as Australia, USA, Botswana, and Norway have benefited from natural resource abundance. Norway, for example, was one of the poorest countries in Europe in 1900. In the 1960s, Norway still lagged behind its Scandinavian neighbours in GDP per capita and other economic indicators. By the 1990s, Norway had overtaken Denmark and Sweden. Today, Norway is one of the world richest and well-governed countries, with some of the best human development indicators.

In Africa, Botswana is roughly comparable to the world's best performers (such as Norway). When Botswana obtained independence from Britain in 1966, it was the third poorest country in the world (Tregenna, 2003; Kiiza, 2006b). This was arguably because of *ineffective* British colonialism (details in Kiiza, 2006b). The country had just 12km of paved road and two secondary schools. Only 100 Batswana had completed secondary school and only 22 had graduated from university (Acemoglu, et al, 2003: 1). Additionally, Botswana was a commodity (or 'cattle') economy with limited postcolonial growth prospects.

With the discovery of diamond at Orapa (1967) and the subsequent opening of Juaneng diamond mines (1982), Botswana's growth prospects changed dramatically. Between 1966 and 1974, Botswana was one of the world's fastest growing economies. Real GDP growth averaged 16 percent between 1970 and 1974. Between 1975 and 1989, rapid growth continued. By the 1980s, mining had replaced cattle as a leading economic sector. Domestic savings started to exceed investment. Government ran budget and trade surpluses. The ratio of government revenue to GDP was a superb 50 percent (about double the African average) and peaked at 64 percent in 1988 (Tregenna, 2003). In 1997, Botswana graduated into a middle income economy.

Today, Botswana's GDP is over $14 billion and per capita income is $8,800. The level of infrastructural development is also high. Botswana now has 888km of railway and 10,217km of roads (with 5,619km paved and the rest unpaved). The country's socio-economic indicators are also impressive, save for the AIDs crisis[12]. Botswana has one of the highest foreign exchange reserves in the world (Jefferis and Kelly, 1999: 212). At a time when most African countries have a huge debt burden, Botswana's foreign debt is only about 14 percent of GNP. The country has no internal debt and is a net exporter of capital.

How does one explain the economic record of resource-rich Norway and Botswana in comparison with resource-rich disasters (such as Nigeria)? And what lessons of good practice can Uganda draw from both effective and ineffective performers?

Why Some Gain and Others Lose: The Case of Norway

Leading researchers are increasingly adopting a new research agenda on resource endowments. The key question is no longer 'how' natural resources often harm the economy but *why* some

[12] In 2001, Botswana had the highest rate of HIV infection in the world: 250,000 of its 1.6 million people were infected and 50% of the population between 25-29 years were dying of AIDS. In 2002, an ambitious campaign was launched that provides free anti-retroviral drugs to anyone who needs them. By March 2004, Botswana no longer had the highest infection rates in the world. But with 37.5% of the population infected, the country is in trouble.

countries gain, while others lose (Mehlum et al, 2006). Why does resource abundance deliver positive developmental outcomes in some countries and economic failure in others? The answer arguably lies in cross-national differences in the quality of domestic institutions. Resource-rich countries that have a malfunctioning bureaucracy and insecure property rights tend to attain lower growth outcomes and more violent conflicts than those that have high quality (Weberian) systems of public administration and predictable/reliable property rights institutions. In other words, institutions matter. When the domestic institutions are 'grabber-friendly,' the benefits of resource abundance are reaped by a few state elites in alliance with foreign (oil) companies. The nation as a whole benefits when domestic institutions are development-enhancing.

Norway's ability to avoid the resource-curse is attributed to the country's initial conditions' and the institutions that were put in place (Larsen, 2006). By the time the extraction of oil started in the early 1970s, Norway was not just a developed economy with per capita GDP of over US$10,000 (PPP); it was (and continues to be) 'a highly egalitarian society that prides itself on being that' (Larsen, 2006: 628). In other words, egalitarianism was socially embedded.

Second, Norway was a mature democracy. Norwegian politicians hardly posed any risk of wasting public resources on selfish political activities (such as bribing the electorate). Third, Norway forged a tripartite social contract between capital, labour and state elites. This social contract, which is central to Scandinavian welfare capitalism, resulted in the institutionalization of equitable distribution of wealth as a societal norm. Norway's distributive justice was in turn made possible by national norms that protected citizens against the vagaries of free markets, or *de-commodification* (Esping-Andersen, 1990). De-commodification refers to 'the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation' (Kiiza, 2006a:271). This system enabled Norway to avoid conflicts over distribution. As Larsen (2006: 269) states:

When the public sentiment is one of satisfaction with and acceptance of the way society is organized, each individual feels less inclined to participate in conflicts such as strikes, sitdowns, or walk-slows. In Norway, laborers appeared content with the visible economic growth, knowing that profits would be ploughed back into growth. The perception was that resource revenues were used to the benefit of all, in investments, technological advance, and education. Laborers found support for this perception in evidence: real capital accumulated, economic growth was reported, and levels of education grew.

Fourth, Norway institutionalized the rule of law and developed a swift judicial system to detect, determine and deter theft of official resources. As a consequence, illegalities such as grabbing of collective wealth via corruption, theft or misreporting is relatively infrequent in Norway. Fifth, transparency in public affairs was emphasized, coupled with media scrutiny. This blocked illegal rent-seeking and left open only the possibility of accessing resource-revenues through legal channels (such as lobbying Parliament for tax relief, wage increases or subsidies). Seventh, Norway created a special Petroleum Fund and accumulated reserves abroad. These initiatives enabled Norway to avoid the negative expectations from oil abundance.

To what extent do Uganda's 'initial conditions' (at the time of oil discovery in the 2000s) and institutional credentials approximate those of Norway in the 1970s?

6. The Case of Uganda

Uganda is substantially different from Norway. Where Norway was an advanced economy with per capita GDP of over $10,000 in 1970, Uganda currently has $ 1000 (PPP). Where Norway was a stable democracy at the time of oil discovery, Uganda is a fragile democracy that only reintroduced competitive party politics in 2006 after 20 years of 'no-party democracy.' Where Norway forged a social contract between the rival claimants to the political economy, Uganda has not. Norway had institutionalized a system of welfare capitalism that guaranteed peoples' right to equitable growth and to the basic necessities of life. By contrast, Uganda has institutionalized neoliberal economics characterized by rapid growth (estimated at 7.3 percent in 1992-2009). However, the rapid growth is highly inequitable signifying the exclusion of a substantial proportion of the people from the fruits of growth (Ssewanyana, 2008; MoFPED, 2008).

Most importantly, Norway institutionalized the rule of law and minimized official corruption. By contrast, Uganda suffers deep-seated official corruption (with Transparence International naming the judiciary and Police as some of the most corrupt institutions in the country). While President Museveni has recently committed himself to fighting official corruption, Uganda's corruption scandals such as the theft of the Global Fund (for Aids, Malaria and Tuberculosis), the

GAVI Funds, the alleged looting of resources from DRC – all suggest that a lot needs to be done to prevent the grabbing of oil revenues via corrupt practices.

Take the case of signature bonuses. DRC caused the oil companies to pay $3.5 million bonus upon signing a PSA for its Block 1 in 2008. Uganda got laughable bonuses of $200,000 and 300,000 for Block 2 and Block 3 respectively. According to Lay et al (2010: 6-7), Uganda's ministry for finance denies knowledge of where the signature bonuses went. This has fueled suspicion that the tiny signature bonuses were stolen. It raises questions over government's intention to use the larger oil revenues for national, as opposed to predatory, purposes.

However, not everything is negative. State officials reported that government will use the exhaustible oil resource to build inexhaustible economic capabilities. Three priorities were specified by interviewees. First, the 'early production agreement' reached between Uganda and the oil companies (particularly Tullow) prioritizes the construction of a mini-refinery to generate 50-100 mega watts of thermal electricity using Heavy Oil Fuels (HOF). The electricity will be added on to the national grid. All Ugandans will potentially benefit. However, electricity will remain costly and below the national requirements (Interviews, Tullow, 6 June 2008). The second priority is the financing of the *National Development Plan*, 2010/11 – 2014/15 (NPA, 2010). The third is the refining of 5,000 barrels of oil per day to produce diesel and paraffin. The aim is to cut Uganda's import bill of paraffin and diesel by 50 percent. [13] The ultimate goal is to improve Uganda's political economy.

Oil Discovery and Uganda's Political Economy

When the National Resistance Movement (NRM) government came to power in 1986, the economy had literally collapsed. Annual headline inflation was in three digits. The low or no value-added products (coffee, cotton, tea and tobacco) constituted over 70 percent of total exports, suggesting that Uganda's Ricardian economy was fragile, poorly integrated in the global economy and vulnerable to external shocks. These challenges are well documented and will not detain us here (Kuteesa, et al, 2010).

[13] Currently Uganda uses about 10,000 barrels of petroleum products per day. The mini-refinery was supposed to be operational by 2009. This did not happen.

Between 1992 and 2009, GDP grew at a high rate of about 6.5 per cent. According to the Governor of the central Bank of Uganda, Tumusiime-Mutebile, 'Real output is now three and a half times greater than it was at the start of the 1990s. Private investment, in real terms, rose six-fold in this period, while exports of goods and services, in dollar terms are now 16 times larger' (Monitor, March 30, 2010).[14] The proportion of income-poor people has declined from 56 percent in 1992/93 to 38 percent in 2002/03 and further down to 31 percent in 2005/06.

The devil is in the detail. Evidence shows that Uganda is still a poor agrarian economy. Over 80 percent of Ugandans live in the rural areas primarily as small-holder agriculturalists using primitive technology – the hand-hoe (UBoS, 2009). Moreover, growth has been highly inequitable. Several stakeholders have been near-spectators in Uganda's 'impressive' economic growth. As Table 2 shows, over 60 percent of northern Ugandans are still below poverty, largely because of the civil war that has lasted for about 20 years.

In Bunyoro, income poverty in 1992/93 was comparable to that of northern Uganda. As Table 2 shows, poverty in Bunyoro decreased by nearly 35 percentage points between 1992/93 and 2002/03; and about 8 percentage points between 2002/03 and 2005/06. However, the people of Bunyoro perceive themselves as one of the poorest in Uganda. They have a poor road network, no

Table 2: Trends in income poverty estimates by sub-region (%)

Sub-region[15]	1992/93			2002/03			2005/06		
	P0	P1	P2	P0	P1	P2	P0	P1	P2
Central 1	47.8	16.3	7.7	22.0	5.7	2.1	18.8	4.0	1.4
Central 2	57.3	19.5	8.9	30.0	7.3	2.5	19.7	4.5	1.6

[14] Ugandan officials and their World Bank partners have till recently been celebrating Uganda's rapid growth of 6.5 per cent between 1992 and 2008. The average figure for that period has been revised to 7.3 percent. Certain MPs complained. The poverty-stricken people they represent do not 'feel' the rosy economic growth reported by technocrats. The MPs tasked the executive to prove that the figures are not 'simply cooked up' (Monitor, March 30, 2010).

[15] Central 1 includes Kalangala, Masaka, Mpigi, Rakai, Lyantonde, Sembabule & Wakiso; Central 2 includes Kayunga, Kiboga, Luwero, Nakaseke, Mubende, Mityana, Mukono & Nakasongola; Kampala includes Kampal; East Central includes Bugiri, Busia, Iganga, Namutamba, Jinja, Kamuli, Kaliro, & Mayuge; Eastern includes Kaberamaido, Kapchorwa, Bukwa, Katakwi, Amuria, Kumi, Bukedea, Mbale, Bududa, Manafwa, Pallisa, Budaka, Sironko, Soroti, Tororo, & Butaleja; West Nile includes Adjumani, Arua, Koboko, Nyadri, Nebbi, & Yumbe; North includes the sub-regions of Acholi, Lango & Karamoja; Western includes Bundibugyo, Hoima, Kabarole, Kamwenge, Kasese, Kyenjojo; Bunyoro includes Bullisa, Masindi, Kibaale, Hoima; and Southwest includes Bushenyi, Kabale, Kanungu, Kisoro, Mbarara, Ibanda, Isingiro, Kiruhura, Ntungamo and Rukungiri.

Kampala	14.0	3.3	1.1	4.7	0.8	0.2	4.5	0.9	0.4
East									
Central	55.4	21.1	10.5	43.3	13.3	5.8	32.3	7.4	2.7
Eastern	61.2	22.7	11.1	48.2	14.7	6.1	40.1	11.1	4.3
North	73.9	31.0	16.3	62.9	25.4	13.0	62.8	21.8	9.8
West Nile	72.7	28.9	14.8	63.1	19.1	8.1	54.7	17.7	7.4
Western-B	52.7	18.7	8.9	41.1	11.3	4.6	21.5	5.7	2.4
Southwest	49.0	16.7	7.9	29.0	7.5	2.9	18.7	4.7	1.6
Bunyoro	68.3	26.9	13.9	33.5	7.7	2.5	25.9	5.9	1.9
Uganda	56.4	20.9	10.3	38.8	11.9	5.1	31.1	8.7	3.5

Source: Based on the Uganda National Household Surveys of 2009/10
Notes: i) P0 poverty headcount, P1 Poverty gap and P2 Severity of poverty

railway line at all, poor education and health services, no quality polytechnic or government-funded University, no high value-added manufacturing industries and hardly any access to electricity. Most Banyoro are poor small-holder agriculturalists. This contrasts with the precolonial situation where the Banyoro were proud cattle-keepers or skilled artisans (annually producing and exporting over 1,000 iron implements in the interlacastrine region). The discovery of oil in Bunyoro has reignited hopes of restoring the glory of Bunyoro-Kitara.

Primary Commodities

A key challenge for Uganda is the dominant role of primary commodities in the export basket. The country's total exports undoubtedly increased from US$171 million in 1992 to US$478 million in 1999 and $2.8 billion in 2009. However, the structure of exports changed superficially from traditional *commodities* (coffee, tea, tobacco) to non-traditional *commodities* (fish, cut flowers, and maize). This signifies no fundamental change in the economy. Oil discovery is raising new concerns. Will Uganda shift from farming to oil production (crude oil), both of which are characterized by low value-addition? Put differently, will oil give Uganda false confidence and entrench a primary commodity economy? Or, will it trigger a structural transformation of the economy into a manufacturer of petrochemicals and other high value-added products?

Donor Dependence

Another key challenge is that Uganda's impressive growth rates of 1992–2009 are associated with donor-dependence. Donor financing of the budget has declined from 52 percent in 2002/03 to 39 percent in 2006/07. By 2009/10, it was still at a high level of 30 percent (MoFPED, Various Issues). The ministry for finance reported its determination to reduce donor dependence 'with or without oil revenues' (MoFPED Interviews, June 2008). Alan Gelb, former World Bank Chief Economist, observes that oil revenues will generate about $60 per person (per year). This is the current level of foreign assistance to Uganda. This raises the question of what role, if any, donors will play in oil-rich Uganda. Alan suggests that donors would focus on technical advice or venture into 'new' investments such as insurance.[16] Documentary evidence points to rising donor interest in infrastructure, thanks to the realization that poor roads, railways, and energy facilities are key obstacles to African development. If Uganda invests in infrastructure, oil revenues will complement, not displace, donor assistance.

Oil Discovery and the Quest for Democracy

When the NRM party captured power in 1986, it imposed restrictions on rival political parties. The claim was that multiparty competition was a virtue of Western industrial societies where parties represent distinct social classes. In pre-industrial Uganda, multiparty politics would arguably degenerate into sectarianism. To avoid this, the NRM institutionalized a regime of "no-party democracy" under which political parties were not permitted to be active outside the party headquarters in Kampala (Kiiza et al., 2008 for details). Ironically, the NRM elites who faulted 'western' political liberalism for being 'un-African' religiously adopted western economic liberalism via far-reaching privatization and other orthodox reforms. The claim, it would seem, was that western economic liberalism was good for Uganda; political liberalism was not.

By the early 2000s, momentum for political pluralism was building up (Kiiza et al., 2008). In the run-up to the 2006 elections, the NRM re-introduced multiparty politics, thanks to sustained pressure from opposition parties, donors and some reformists among the ruling elite. The NRM apparently adopted multi-party politics only in a manner that would enable it to retain power. The question is whether or not oil discovery will stifle Uganda's embryonic democracy. Skeptics argued that authoritarian rule is likely to be entrenched. The ruling elites will arguably do everything possible to retain power. Others hypothesize that competition for state power will increase as opposition groups 'seek their turn to eat'. Yet others claim that rival claimants to state power might make generous electoral promises (such as direct oil-cash transfers to

[16] Interviews with Anton Dobronogov in Washington DC (April 15, 2010), and seminar discussions with Alan Gelb at the Center for Global Development, Washington DC, USA (May 20, 2010).

households). While this seems to make sense in corruption-ridden countries (such as Uganda), the cash transfers are a disincentive to productive work. Cash transfers also risk entrenching a dependency mentality, which will be unsustainable when oil dries up (in 50 years or so). Clearly, then, governance issues compound the different stakeholders' expectations and anxieties.

7. Anxieties and Expectations of Different Stakeholders

This section briefly looks at the anxieties, expectations and/or demands of different stakeholders, beginning with those of the Democratic Republic of Congo (DRC).

Congo's Anxieties over Cross-Border Oil

Government interviewees reported that some of the discovered oil wells lie across the DRC–Uganda border. This has raised DRC's anxieties that Uganda could exploit DRC's oil. To minimize conflicts, a joint Uganda-Congo exploration agreement was signed. The problem, it would seem, is that Uganda is ready to develop its oil basins; DRC is, 'perhaps ten years behind' (Interviews, July 2008). According to a top PEDP technocrat,

Congo's anxieties are uncalled for. The oil basins we intend to develop are entirely inside Uganda. Second, Congo's leaders have visited Uganda and received explanations from us on the facts and progress we have made. We have shared technical information, and reassured DRC that we have enough oil to build an oil industry without touching theirs (Interviews, July 2008).

A conflict analyst at Makerere University suggested that Congo's concerns might be associated with the 2001 and 2003 UN Reports that implicated top Ugandan elites in looting DRC's minerals.[17] The Congolese seem to be worried that history is about to repeat itself just across the Uganda-Congo border (Interviews, August 2008). These cross-border anxieties could trigger violent regional conflicts if they are not managed well.

[17] The *Report of the UN Panel of Experts*, April 2001 indicates that Uganda, like Rwanda, appropriated DRC's resources. Rwanda benefitted directly; Uganda did not. The Rwandese Patriotic Army (through Rwanda Metals), made an estimated $250 million in 18 months (enough to finance RPA's war in the Congo). In Uganda only the top state elites allegedly benefited (as individuals). But Rwanda and Uganda were not alone in the UN 'dock'. In October 2002, the UN Panel accused 85 western companies of breaching OECD standards through their activities in DRC. Trade in tantalum (refined coltan) was a case in point. Tantalum (which costs $100 a pound), is a key component in the manufacture of mobile phones (Nokia, Ericsson, etc) and computer chips (from Intel to Sony stereos and VCRs). The process of mining coltan in DRC had social effects 'akin to slavery' – using forced labor, prisoners, smuggling, and murder. Some western countries (UK, USA, Belgium, Germany) reportedly lobbied to have their 'national' companies removed from the 'List of Shame.' See Declan Walsh, *UN cuts details of Western profiteers from Congo report, The Independent,* October 27, 2003.

However, the Congolese are not innocent. Ugandan technocrats (in Hoima) reported insecurity threats originating from DRC. This was confirmed by local council leaders of Kyehorro fishing village who reported that Congolese 'pirates' loot the vessels, fish and fishing gear of the Ugandan fishermen on Lake Albert. It was also confirmed by Bunyoro Kingdom officials.

Demands of Bunyoro-Kitara Kingdom

Bunyoro Kingdom officials expressed concern that the National Oil and Gas Policy does not define Bunyoro as a *direct* beneficiary of the oil wealth. The Kingdom argues that it has existed for over 1000 years, and is entrenched in Constitution of Uganda under Article 246. The Kingdom rejects the claim by the Uganda Wild Life Authority over sections of the oil-rich land. According to a top Kingdom official Bunyoro-Kitara historically and culturally 'owns the land where oil has been discovered in Hoima, Kibaale, and Buliisa districts' (Interviews, June 2008).

Kingdom officials argue that Banyoro have suffered neglect since the advent of colonialism in the 1890s. They trace their marginalization to Omukama [King] Kabalega's anti-colonial wars against British troops and their Buganda Kingdom allies. According to a key informant:

Colonialists conducted an extremely barbaric war. They dismantled our progressive cattle economy, ironworks, and textile [bark-cloth] industry. In the name of vaccination, our cattle were injected with lethal substances that destroyed thousands of our herds. Through a scotched-earth war strategy [which involved burning people's houses, destroying the productive economy, and looting cattle and other movable wealth], the Bunyoro economy and society were impoverished. We will use our share of oil revenue to develop our economy and society (Bunyoro Interviews, July 2008).

Our key informant made specific reference to the land question in Bunyoro in comparison with Buganda:

Buganda was permitted to have mailo-land; Bunyoro was not. Mailo-land grants, as you know, were huge colonially sanctioned holdings measured in square miles. If the Bunyoro land where oil has been discovered was in Buganda, it would be under the mailo-land system. It would directly benefit the Buganda Kingdom, which is still a large land owner, or individual Baganda landlords. Our case is different. Our land was either declared 'public land' and appropriated by the central state or, customary land, which remained largely unregistered. These historical injustices against Bunyoro should be redressed (Interviews, July 2008).

A focus group participant who came from Kibaale District (where there are raging land conflicts between the *Bafuruki* (immigrants from Kigezi in southwestern Uganda) and the Banyoro natives) expressed hawkish sentiments. According to him,

The colonial state grabbed from Bunyoro the Seven Lost Counties – Buyaga, Bugangaizi, Buhekura, Orugonjo (Singo), Buruuli, Bulemezi (Kayunga), and Bugerere. These were donated to Buganda Kingdom. The administration of Buyaga and Bugangaizi was returned to Bunyoro in 1964; but the land remained in the hands of Baganda absentee landlords. This historical anomaly cannot continue. All our Lost Counties should be returned. Bunyoro did not sign the 1900 Uganda Agreement under which the Lost Counties were donated to Buganda. We are not bound by the Agreement. Now is the time for the Banyoro to reassert their collective and group rights. We either share the oil wealth or cause chaos (Interviews, June 2008).

Another study participant expressed loss of trust in the ruling elites for whom 'thousands of Ugandans shed their sweat and blood' [during the 1981-86 guerilla war that brought President Museveni to power]. He hastened to add:

The current government for which some of us fought heroically to bring to power has not helped us. It's not ours. There is conspiracy on the part of government to rob us of our wealth. There seems to be a sinister, secret plan to rob Bunyoro of its wealth, including the oil-rich land and the oil. Certain state officials allege that we, the Banyoro, are cowards – should we fight to prove that we are the Abanyoro, that is, respected chiefs who have the power to fight for our rights? Should we prove that Kabalega's spirit of resistance flows in our blood? Where are the brave heroes of Bunyoro? We are going to fight. Bunyoro is so poor and marginalized that even the Orukurato [Bunyoro Parliament] cannot sit for lack of money (Hoima Focus Group Discussion, June 2008).

Bunyoro Kingdom articulated six top demands that should be financed using the Kingdom's share of oil revenue. First is infrastructure (mainly tarmac roads throughout Bunyoro and a railway network). Second is the improvement of primary and post-primary education, backed by the establishment of quality polytechnics and at least one Bunyoro University teaching oil-related courses. The aim is to prepare Bunyoro's children to compete with the best and brightest in the job market. Third is job creation for the natives. Fourth is reliable and affordable electricity (once thermal electricity is generated using heavy fuel oils). The aim is to light up people's homes, health facilities, and schools with a view to defeating poverty. Fifth is the demand for representation on the Governing Boards of the oil companies. The claim is that: 'Resource extraction without representation is tyranny' (Interviews, June 2008).) Sixth was the strengthening of the people's culture to mitigate the social evils (associated with migration, prostitution, and HIV/AIDS) that may come as a result of oil development.

Skeptics have expressed reservations on the developmental role of Kingdoms. The main concern is that *Omukama Tagarukwamu!* [The King's directive is final]! In other words, monarchies are not necessarily accountable. We asked the Prime Minister of Bunyoro to comment. He conceded that monarchies, at some point in their evolution, were arbitrary, not just in Bunyoro, but in Europe as well. The present-day *Omukama* has 'developed two ears and one mouth. He listens patiently before speaking or, taking action' (Interviews, July 2008). The *Omukama* has arguably learned the unalterable law of civilization: Change, and only change, is a constant. Thus, the Kingdom, which historically had sovereignty over all the oil-rich lands, has now expressed willingness to be accountable for the revenues received. It is also willing to forge developmental partnerships with the oil companies and government at both central and local levels.

Expectations of District Local Governments

The district local governments (LGs) that have jurisdictions over the oil-rich areas expressed satisfaction that the dramatic appreciation of land in Bunyoro (following oil discovery) had not resulted in illegal land grabbing. The president, for example, who is reported in the media to have acquired land in the oil-rich areas '*does not have land here, not even by proxy'* (Chair, Hoima District Land Board, July 2008). However, a top cabinet minister who comes from Bunyoro was reported to have acquired 15 square miles of land near the oil wells. Top army officers were also reported to have acquired land using local people as agents. Anxieties were reported that the new landed elites would evict the natives who have customarily lived on the land for generations.

The district technocrats reported optimism that oil revenues would boost LG finances and reposition LGs as key actors in local economic development. The LG share of oil revenue will arguably be used to (a) protect the environment, particularly the fragile ecosystem in the oil-rich Albertine Graben; (b) embark on planned urbanization associated with the new oil economy; (c) develop infrastructure, particularly upgrading the district dirt-roads, health centres, and schools; and (d) embark on the non-oil economic sectors such as rural industries, bio-fuels and the service-sector investments that will offer auxiliary services to the oil economy. Like the Kingdom officials, they are worried that failure to use oil revenues to promote local develoment might breed bitterness among the community. This could trigger Nigeria-like armed conflicts. The

Deputy Chief Administrative Officer of Hoima affirmed his LG's determination to avoid the Nigeria resource-curse in Bunyoro: 'We will use the oil revenue to deliver local economic development. This will immunize Bunyoro against the resource-curse' (Interviews, July 2008).[18]

Concerns and Demands of Area Members of Parliament (MPs)

The area MPs raised several 'concerns' which they deemed to be important to them as citizens, and as people's representatives. First is the secrecy surrounding the oil contracts. One of the MPs unambiguously stated:

The fears of the Bunyoro Kingdom are genuine. They have been kept in an information vacuum. The oil contracts are designed in secrecy. Even me as a Member of Parliament, I feel cheated. I am worried that the final petroleum law may come up without adequate inputs from Bunyoro. If we were brought on board properly, there would be no suspicion.

This view was echoed by another MP who asserted:

Our people blame us for not representing them effectively. Yet, we are also in the dark. State elites want to fragment us. They empower some inner-circle MPs with information, and the leave the 'outsiders.' There is no transparency in the conduct of oil affairs. The oil issue should be treated as an issue for all the Banyoro [and all Ugandans]. (Hoima Interviews, June 2008).

The second concern was that the oil companies had gotten their politics wrong. 'They consult with District Chairpersons but ignore the District Councils and the area MPs' (Interviews, June 2008). The third concern was the erosion of trust in government in preference for the oil companies. The Tullow and other oil companies have undoubtedly constructed boreholes and health centres on the shores of Lake Albert. They have also constructed access roads, which zigzag down the steep rift valley escarpment. While the MPs appreciated these investments, they expressed the need to educate the community that 'the oil companies were partners, not substitutes, of government.' For example, the equipment that constructed the access roads

[18] The district technocrats were concerned that consultations during the formulation of Uganda's Oil and Gas Policy were 'superficial and 'last-minute' – something that should be avoided in the preparation of the petroleum law. Second, the corporate social responsibility of the oil companies has resulted in the construction of schools, health units or boreholes. But these are not integrated with the district plans. Nor do they have a share of the district budget. Thus, sustainability will be a problem once the oil companies withdraw support. Third, while Environmental Impact Assessments (EIAs) were carried out; they were 'a matter of formality' and failed to take into consideration critical issues like catering for the water catchments areas in the hinterland.

across the escarpment came from the districts, which are units of government. Yet the communities seem to think the oil companies care, government doesn't. this is dangerous for governmental accountability (Interviews, June 2008).

The fourth concern was over the recruitment policy of the oil companies. The natives were offered low-skilled, poorly paying jobs – as security guards, drivers and cooks. The better-paying technical jobs were arguably reserved for foreigners and 'politically-connected' Ugandans. This was 'unacceptable.'[19]

The demands of the MPs were apparently summed up by the area MP for Buliisa district who asserted:

We want action now. Upgrade all the major district roads to tarmac; consult the natives in the formulation of the petroleum law; and integrate the area MPs and local political leaders in the policymaking process. Greater transparency is also needed in the oil contracts and, ultimately, in the use of oil revenues. The high levels of corruption in public office also need to be addressed. Unless official corruption is decisively dealt with, the public will remain suspicious of government's secrecy. They will remain skeptical about government's claim that oil will be a blessing, not a curse.

Expectations and Demands of Communities around the Oil Wells

The local community in Kyehorro and other fishing villages reported that oil discovery was a mixed blessing. Geographically, the Lake Albert basin is in the Western arm of the great East African Rift Valley. It was a hard-to-reach area prior to the discovery of oil, thanks to the steep escarpments on both the Ugandan and the DRC border. There were no access roads, and no telephone masts for mobile phones. Water-borne diseases were high, thanks to the poor supply of toilets and health facilities. School children could hardly stay in school due the lucrative fishing activities on the lake, worsened by the lack of good quality schools in vicinity.

With the discovery of oil, these are beginning to change. The roads opened by the oil companies (in partnership with local governments) have dramatically made the fishing villages accessible. We observed businesspeople's trucks that had moved right to Kyehorro viallage to purchase

[19] We explained that oil exploration is a technical activity. The local people should not complain about 'discrimination' if they do not have the technical competence. Instead they should ask government and the oil companies to finance the training of natives in the oil-related sciences.

fish. Improved access simultaneously lowered the price of foodstuffs in the fishing villages and increased the price of fish by over 100 percent (between 2006 and 2008). This boosted household incomes. Tullow had sank boreholes, built a maternity clinic, and renovated at least one primary school in Kyehorro village. Murram runways for small planes were also built to ease travel between Kampala and the oil-rich Albertine Graben. Telephone companies were also busy erecting telephone masts. Our focus group discussants reported dramatic improvements in the standards of living following oil discovery. However, we observed slum-like dwellings, unplanned settlements and poor drainage in Kyehorro village, suggesting that a lot had to be done to promote local development.

Anxieties emerged when Tullow declared a section of Lake Albert a 'no-go-area' for fishermen and women. John Okumu, a local fisherman, narrates his anxieties as follows:

When Tullow moved its exploration drill right on the lake, access to our fishing grounds was interfered with. This problem lasted for a few weeks. Our fear is that when oil development starts, we might be ordered to move away from the lake. Yet, most of us dropped out of school. I left school in 1989 when I was 10 years. I was in primary four. I don't have any skill apart from fishing. I have two wives and 12 kids. The lake is our 'bank' as a family and as a community. What shall we do if we are blocked from this lake? If oil development interferes with the trade we inherited from our great grandparents, what shall we do for a living? (Interviews, July 2008).[20]

The discovery of oil beneath Lake Albert has also raised worries over the risk of oil spills that could suffocate the fish to death and cause irreversible damage to the lake, the fishing villages and surrounding environments. The risk of environmental damage (comparable to the BP Gulf of Mexico oil spill of 2010) is high. Uganda's institutions and enforcement mechanisms are deemed to be incapable of preventing environmental damage, or responding to the crisis once it happens.

[20] The natives of Buliisa district especially the Bagungu (in Block 2) also complained that the Bararo herdsmen were evicting them from their customary land. Some of the herdsmen were armed with assault rifles reserved for the army and were perceived to be 'fronts of top politicians seeking to grab our oil-rich land' (Interveiws, July 2008). Government denied that top politicians were involved, and promised to relocate the herdsmen elsewhere in the country.

The main demand of the fishing-community leaders was that the proposed petroleum law should address their right to life. For the fishing communities, this means the right of access to the lake.

Anxieties over the Production Sharing Agreements

Concerns have been raised over the production sharing agreements (PSAs) that Uganda signed with the oil companies. In December 2009, PLATFORM (a UK-based environment and governance watchdog) published the draft copies of Heritage's 2004 Block 3A PSA, Dominion's 2007 Block 4B PSA, and Tullow's draft PSA for Block 2 (Table 1). PLATFORM (2009) subsequently corroborated their evidence with off-the-record government interviewees and a loose minute signed on 2 September 2004 by Kabagambe Kaliisa of the ministry for energy. It was confirmed that the draft PSAs are 'indeed very close, if not identical, to the signed PSAs' (Lay et al, 2010: 4).

Three categories of anxiety have emerged over the PSAs. The Uganda government will receive 'between 47.4% and 79.5% of revenues, depending on the price of oil, size of fields, development costs and other factors.' This is 'below the 80+% regularly trumpeted by the government and the oil companies' (PLATFORM, 2009: 1). Second, the contracts promote corporate greed, not national development. 'In the most likely scenario, Tullow Oil could make a 30-35% return on its investment,' which is rated as 'excessive profit-taking at the expense of the host government' (PLATFORM, 2009: 1). Third, Uganda is receiving a worse deal than, say, the Kurdistan Regional Government in northern Iraq, which is not even a recognized state. [Heritage receives a higher rate of return in Uganda than northern Iraq].

Most damagingly, the PSAs have a controversial 'stabilization clause.' Article 19 requires the Ugandan government to compensate oil companies for any future change in the law that affects company profits. In the wake of the damaging oil spills in the Gulf of Mexico, BP (under pressure from President Obama) agreed to pay the billions of dollars needed for the clean-up. Under Uganda's stabilization close, government cannot demand for environmental safeguards or clean-ups (since these will reduce the companies' profits). Indeed the clause guarantees the oil companies unfettered profits. 'As oil price rises, investors will make a higher and unlimited profit, taking close to one quarter of oil revenues, whether each barrel is fetching $70 or $200' (Lay, 2010). Worst of all, the stabilization close legislates against renegotiation of the oil contracts. This is an encroachment on Uganda's sovereignty. It is antithetical to the patriotism Commander Museveni exuded soon after capturing power in 1986.

For the skeptics, Article 19 seems to set the stage for an oil-curse in Uganda. The stabilization clause questions the patriotism and/or competence of the experts who negotiated the PSAs on behalf of Uganda. Some interviewees alleged that certain state elites have either acquired, or been promised shares, in the oil companies. If this happened, a good contract for the oil companies would be profitable for selected state elites (as individuals). [We lacked the time and resources to verify whether this claim is true or false]. Skeptics also argue that the high levels of official corruption (the Global Fund, the CHOGM loss of Shs 500 billion in shoddy deals, and several direct and indirect donations to the cronies of the ruling party) give little hope that the oil revenue will not be stolen.

According to Lay (2010), the ingredients of the resource-curse 'are all in place: contract secrecy, government corruption, commercial disinformation campaigns, with environmental protection ignored, and a simmering border dispute with the Democratic Republic of Congo frozen rather than resolved.' This echoes Karl's (1997: 213) view that 'the pre-existing political, social and economic institutions available to manage oil wealth' matter. In other words, the quality of governance matters.

Lay et al (2010: 33-34) seem to summarize the views of skeptics: 'The honest reality is that [oil development in] Western Uganda is most likely to exacerbate poverty, distort the Ugandan economy … increase human rights violations, entrench the power of military forces, escalate tensions across the border with Congo, create new health problems for local communities, increase both international corruption and revenue mismanagement, reduce Uganda's wildlife stocks, and pollute the land, water and air.' In sum, the risk of an oil-curse is real.

How is government responding to the multiplicity of expectations and anxieties associated with oil discovery?

From Exaggeration and Laissez Faire to Cautious Optimism

The Uganda government has repeatedly criticized comparisons with Nigeria, Angola and other resource-curse countries. It has raised expectations that Uganda will be Africa's new Norway. Some technocrats agree. Tumusiime-Mutebile, for example, affirms Uganda's state capacity to manage the oil revenues (on account of the technocrats' ability to manage macro-economic stability since 1992).[21]

The government originally used exaggeration and/or a laissez faire strategy to manage people's positive expectations. The president, for example raised people's expectations when he emphatically argued, as early as 2006, that Ugandan oil will be a blessing, not a curse:

There is a lot of nonsense that the oil will be a curse. No way! The oil of Uganda cannot be a curse. Oil becomes a curse when you have got useless leaders, and I can assure you that we don't approach that description even by a thousandth of a mile… The oil is a blessing for Uganda and money from it will be used for development.[22]

On 9 October 2009 (Uganda's 47th Independence Day) the president asserted that: 'No one, in Uganda or internationally, can now doubt the country's steady and deliberate path to a middle-income country status in the near future,' thanks to the discovery of oil.[23] A year earlier, the president had announced that Uganda will not export crude oil (Juuko and Odomel, 2008). Value addition was the catchword. A refinery will be build. Uganda will export value-added products and reap greater export earnings.

Government technocrats have increasingly abandoned the laissez faire strategy (which is consistent with the traditional civil service) and adopted the strategy of cautious optimism. For example, Kabagame-Kaliisa of the ministry for energy affirms that Uganda has excellent chances of developing its oil industry. He nevertheless cautions that the country needs a huge sum of US$8 billion, which 'the licensed oil companies are unable to raise.'[24] Alan Gelb (former World

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[21] Remarks made at the National Seminar on Managing Oil Revenue in Uganda, Munyonyo Commonwealth Resort, Kampala, July 8-9, 2008.
[22] See IOL, South Africa, Uganda Announces Oil Discovery, http://www.iol.co.za/index.php?set_id=1&click_id=68&art_id=qw1160371442337B225, accessed 31 May 2010.
[23] Uganda Media Centre, Independence Speech, 9 October 2009, http://www.mediacentre.go.ug/details.php?catId=6&item=634, accessed 15 May 2010.
[24] Uganda needs this money over the next decade to finance continued drilling, field appraisal, and the construction of a refinery, storage facilities, a power plant and transmission lines. Energy-pedia, 18 February 2010, http://www.energy-pedia.com/article.aspx?articleid=139078, accessed 3 June 2010.

Bank Chief Economist) also advises that building oil refineries is costly. It is constrained by a huge price-tag, small profit-margins on finished products, and unwillingness by local people to have a refinery in their neighborhood.

Lawrence Kiiza dampens popular expectations even further. According to him, some popular expectations are premised on wrong petroleum economics:

If the cost of oil is US$100 a barrel, and the oil companies announce the discovery of 1 billion barrels of oil, most Ugandans think the government will earn 100 X 1 billion, or US$100 billion. This is definitely a lot of money. But it is based on faulty petroleum economics. The discovery of 1 billion barrels does not necessarily mean all of it will be recoverable. Second, the cost of oil exploration, extraction, development and transportation needs to be estimated and subtracted from the gross oil sales.[25]

Other experts have damped people's expectations by warning that oil could lead to the displacement of "private sector-led growth" with a state-driven economy. Some interviewees warned against the Dutch Disease effects of oil revenues.[26] Others warned that Uganda's fledgling democracy could descend into an overt dictatorship as predatory political elites position themselves to enrich themselves at the expense of the country.

8. Conclusion

This paper has examined the management of expectations *and* the anxieties associated with oil discovery in Uganda. The interests of the central government, the local governments, the oil companies and the land owners appear to have been adequately taken care of. Those of Bunyoro Kingdom and the local communities have not. It is also evident that some of the anxieties (such as the marginalization of Bunyoro Kingdom) are accurate; others (such as the press reports of land grabbing) are inaccurate; while certain worries are really exaggerated (as is the claim that aid dependence will end immediately once the oil revenues begin flowing).

[25] Remarks made at the National Seminar for Managing Oil Revenue in Uganda, Munyonyo Commonwealth Resort, Kampala, July 8-9, 2008.

[26] The Dutch Disease gets its name from a phenomenon that affected Holland in the 1960s following the discovery of natural gas reserves. This led to the collapse of manufacturing and other sectors. Dutch Disease is the recession that hits other sectors when one industry or economic activity dominates, or increases its exports. Dutch Disease typically results in the appreciation of the value of the currency, rendering manufacturing and other domestic activities costly (relative to other countries) and therefore less competitive in international markets. Jobs in manufacturing might migrate elsewhere.

Several conclusions emerge. First, the false expectations, anxieties or accusations largely arise from the secretive and laissez faire strategy that government has predominantly used to manage people's expectations. No serious justification has been found for the high level of secrecy. Admittedly, no government disseminates all state secrets to the public. However, basic information, which is not injurious to national security, should be shared out. We accordingly recommend substantial improvements in the flow of information from knowledgeable government officials to other stakeholders.

But that is not all. The people's anxieties appear to spring from the past record of corruption in public office. The high levels of corruption must be addressed. As already noted, the Global Fund saga and the Shs500 billion that was lost via shoddy CHOGM deals are cases in point. The deep-seated corruption and the weak institutional credentials of Uganda have led some to expect that nothing will change when oil revenues begin flowing. For reasons of path dependency, a substantial section of people expects oil revenues to be swindled by a few state elites. It is this worry that has triggered anxieties over the unequal oil contracts which disproportionately appear to favour oil companies vis-à-vis government. We strongly recommend renegotiation of the oil contracts. To immunize Uganda against the resource-curse, a culture of equitable or 'shared' growth (a la Norway) also needs to be the developed. For this to happen, government needs to build new institutions (such as an oil company) and revive old or dying developmentalist institutions (such as Uganda Development Bank and Uganda Development Corporation). These institutions should, in turn, be used to channel oil revenues into development infrastructure that will stay long after the oil wells have dried up. Different stakeholders have emphasized permanent roads and railways, high quality health and education services, technical training, as well as university education. Uganda must use the exhaustible oil wealth to create inexhaustible development capabilities. Concrete development is the only sure way of fortifying Uganda against the Nigerian resource-curse.

The third conclusion is really cautionary. Developing an oil refinery capability is costly. Yet, the competitive global markets are merciless to primary commodity exporters. Uganda needs to invest in strategic cost-benefit analysis; *strategic* in the sense of transcending orthodox economic wisdom (which narrowly focuses on short-run profit maximization). Strategic cost-benefit analysis should analyze the economic, social, and environmental costs of developing refinery capability in Uganda. The claim of low profits on refined petroleum products must be weighed against the local communities' anxieties over the risk of air pollution, poor wastewater disposal, and oil leakages. It must be weighed against the opportunity of using oil to build a high value-added petrochemical industry (that that manufactures plastics, detergents, solvents, elastomers and fibers such as polyesters). It must also be assessed in the light of the fact that virtually all the petroleum products – including the light distillates (such as gasoline); middle distillates (kerosene, diesel); and heavy distillates or residuum (heavy fuel oil, lubricants, asphalt) – have commercial value. Asphalt (bitumen), for example, might have low export value; but it has huge developmental significance since it can be used to build durable tarmac roads across the country. This would make oil a development blessing, not a curse, for Ugandans.

Finally, the historical injustice committed against the people of Bunyoro should be addressed. *Okalya dda kadda dda* is a famous Luganda maxim. It literally means: grave historical errors can never be buried and forgotten. They invariably keep resurfacing. The perennial issue of Bunyoro's Seven Lost Counties, the historical destruction of Bunyoro's productive economy (such as ironworks, textiles); and the subsequent marginalization of the Banyoro should now be addressed. To avoid Nigeria-like violent conflicts, which would create a lose/lose situation for the oil companies, the government, and Ugandans at large, Bunyoro Kingdom should be given a reasonable share of the oil revenues. [Some technocrats reported that 8-10 percent would be a reasonable share for Bunyoro]. We nevertheless urge caution. The Kingdom must not be given a blank cheque. Great care should be taken to ensure that the oil revenue is used for development. Government must insist on investments in primary and post-primary education, polytechnics, tree farming, or community enterprises which will transform Bunyoro Kingdom into government's partner in pursuit of development.

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None of the above will be possible unless official corruption or incompetence is disabled. None will be possible unless accountable governance gains traction at the central state, local government and Kingdom levels. Stakeholders in the oil economy need to ensure that the quality of governance improves. But civil society cannot fold hands and wait to lament over mismanaged oil resources. Civil society organizations and all stakeholders need to understand one thing. Power concedes nothing unless there is pressure. The people must therefore organize and demand for proper use of oil resources. Righting resource-curse wrongs is not just desirable. It is possible.

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