

A RETURN TO THE RESOURCE CURSE OR A PATH TO DEVELOPMENT? OIL IN UGANDA

by

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ABSTRACT

Within the next five years, Uganda will become one of Africa's largest oil producers, and will rank amongst the world's top 50. Given the negative relationship between oil and development witnessed across the African continent, one could assume oil will hinder, rather than help, Uganda. This project explores the relationship between resource endowment and underdevelopment, often known as the resource curse, and puts this paradoxical relationship into the Ugandan context. There is little telling how oil will influence the state, yet it is evident that if Uganda wishes to become successful than it must learn from the mistakes of others, and address the fundamental causes of the resource curse. Although many have already written Uganda off as the next resource failure, this project takes a more neutral approach and suggests that Uganda is in fact not necessarily doomed.

Keywords: resource curse; Uganda; oil; Dutch Disease; paradox of plenty, resource conflict

*To my late uncle Jim, who continues to inspire me,
To Bishop Bamunoba, for showing me the true nature of humanity, and,
To all of those who have suffered due to oil-induced conflict, may we find
new ways to quench our thirst for black gold.*

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GLOSSARY

ADB	African Development Bank
CHOGM	Commonwealth Head of Government Meetings
EITI	Extractive Industries Transparency Initiative
FDI	Foreign Direct Investment
GOU	Government of Uganda
IMF	International Monetary Fund
NDP	National Development Plan
NRA	National Resistance Army
NRM	National Resistance Movement
ODA	Official Development Assistance
PEAP	Poverty Eradication Action Plan
URA	Uganda Revenue Authority
WB	World Bank

INTRODUCTION

In 2008, Ugandan President Yoweri Museveni pronounced to the world that Uganda would achieve its development goals with the assistance of its newly discovered oil reserves. Current estimates suggest that nearly 1.2 – 2 billion barrels of recoverable crude lie in the Western regions of Uganda, along the Albertine Rift Valley (International Alert 2009). If these figures prove to be correct, Uganda will become East-Africa's largest oil producer, and will rank amongst the world's top 50. However, although oil presents a substantial economic opportunity for Uganda we need not look far to find many nations plagued by the commodity.

High-profile country cases such as Angola, Nigeria, and Uganda's northern neighbour, Sudan, demonstrate how oil can hinder rather than help a country.

This paper explores the unique relationship between resource endowment and underdevelopment, often known as the resource curse. The resource curse theory explains why resource poor nations often perform worse than their non-resource rich counterparts. The paradoxical resource curse has negatively influenced nations across the globe, and has a real potential to influence Uganda as the nation surges forward to develop its oil fields.

Throughout this paper, I argue that due to a number of factors, notably corruption, weak institutions, existing social tensions, and others, oil could lead Uganda down the resource curse path. However, although Uganda could succumb to the curse, I note how the government has the opportunity to become the next Botswana, Africa's only resource related success story. Uganda is in a unique position; it has the

opportunity to learn from the mistakes made by other African oil states and has the opportunity to harness its oil for development. While many, notably in the media, are ready to write off Uganda's future, it is, at this time, premature to suggest the resource curse is inevitable.

In the first section of this paper, I explain the resource curse. This brief section sets the stage for the remainder of the paper as it introduces the main tenants of the theory. I also present the rather obvious argument forwarded by Ross (2002) who stated that not all resource endowed states are doomed to failure, as evidenced by the success of Canada, Norway, Botswana, and many others.

The second section of this paper explores the current oil debate in the Ugandan media. This section analyses the domestic literature, and provides context to the situation on the ground. I conclude that although the literature appears to be largely negative, we cannot immediately write off Uganda's potential to avoid the curse.

The third section of this paper explores the literature behind the resource curse and puts it into a Ugandan context. Here I discuss the literature grouped into three distinct categories, economics, institutions and civil conflict. Throughout this section, I explore how Uganda has been able to make progress on all three fronts since 1986, when President Museveni came into office. By discussing examples such as Uganda's ability to combat HIV/AIDS; its ability to strengthen public institutions; its ability right the economic catastrophes of the post-independent period, as well as, the creation of national peace and stability (following the defeat of the LRA and all other rebel groups), I argue that we can not immediately write off Uganda. I note how policies, such as the construction of a domestic oil refinery, as well as using reserves to satisfy the domestic market before exporting the commodity, demonstrate some of the good policies Uganda is making and some of the lessons the state appears to have learned from past failures.

However, although Uganda has made progress in some areas, I do note some red flags, notably the high level of corruption, and high poverty rates, which are causes for concern.

In the fourth section, I assess the 2008 National Oil and Gas Policy. The policy replaced the 2002 National Energy Policy. Here I argue that although the document is a step in the right direction, it has much room for improvement. Notably, the documents language is generally vague, unclear and non-specific. I note a couple of key concerns, specifically institutional overlap as well as funding, which could arise. The second section of this paper notes that much scepticism regarding oil exists; one of the reasons for this has been the little information made publicly available by the government. Throughout this section I argue that the government needs to be more transparent and accountable to the public for two reasons, one – to keep public expectations in check, two – to give a voice to the public.

Uganda is at a crossroads; what it does with its oil will likely have dramatic effects on the long-term future of the state. Ugandans, as well as those in the international community, may be sceptical of oil because no African state has been able to utilize the commodity to prosper. However, as will be demonstrated, the failures of others may in fact give Uganda a significant advantage. By learning from the mistakes made by others, and heeding the warnings presented by the available literature, Uganda can utilize its oil to promote development. Although we are unsure at this time how oil will affect Uganda, it is premature to suggest the nation will become the next resource failure.

1: THE RESOURCE CURSE

States that have abundant natural resources yet have been unable to use them to promote growth and development experience what is known as the resource curse, also known as the paradox of plenty. The resource curse is paradoxical because those with limited natural resources perform, on average, better than their resource wealthy counterparts. Robinson, et al. (2006) accurately summarize the paradox:

Scholars of the industrial revolution and economic historians traditionally emphasized the great benefits which natural resources endowed on a nation. Paradoxically however, it is now almost conventional wisdom that resources are a 'curse' for currently developing countries.¹

The resource curse is not specific to any one type of resource, or to any particular region. Some resource abundant nations, such as Canada, Australia and Norway, have been able to avoid the resource curse, while others, such as Angola, Nigeria, Sudan and Saudi Arabia, have been less fortunate. Some nations experienced declining growth and increasing income inequality due to the curse. While others, such as Angola and Sudan, have experienced more dramatic effects, notably lengthy civil conflicts and extreme poverty. With the exception of Botswana, highly resource endowed sub-Saharan African nations have largely been unable to prevent the resource curse. There are many factors that cause the curse; resource reliance, Dutch disease, crowding out effects, revenue volatility and corruption to name a few. I return to examine these causes in section 3.

¹ Robinson, J., Torvik, R. & Verdier, T. (2006). Political Foundations of the Resource Curse. *Journal of Development Economics*, 79, p.447

With its recent, significant oil discovery in the Albertine Rift Valley, Uganda is poised to become East-Africa's largest oil producer. Although Uganda has yet to produce oil, the commodity is already generating cause for concern. Ugandans do not have to look far to find nations plagued by the lucrative commodity. However, as will be argued throughout this paper, simply because Uganda has discovered oil does not mean it will follow the path of its oil wealthy neighbours.

2: OIL IN THE UGANDAN MEDIA

“The discovery of commercially viable hydrocarbons in the Albertine Rift Valley in western Uganda has elicited a mixture of excitement and trepidation. For many Ugandans, there is hope that the discovery of oil and gas will result in economic transformation, growth, development and prosperity. However, for some others, there is fear, anxiety and concern that the emerging oil and gas industry presents significant challenges that the country’s governance systems are not in position to effectively handle; consequently, leading to economic deterioration, insecurity and abject poverty.”²

In this section I review all oil’ related articles published in the The Daily Monitor and New Vision, Uganda’s two national dailies, from October 24th, 2010 to the present.³ It is important to note that oil was an important issue throughout the campaign, and thus received significant attention from a variety of angles. There were 26 articles published in The Daily Monitor, as well as 17 published in New Vision.

The 26 articles from the Daily Monitor and 17 from New Vision reveal some of the concerns that Ugandans have about the oil industry. In particular, they reveal pervasive worries that Uganda could turn into the next Nigeria, Gabon or Sudan. Ten of the twenty-six articles from The Daily Monitor are editorials, four are commentaries, while the rest are straight reporting. Five of the articles from New Vision are

² Bazira, Henry. (2010). *Uganda’s Next Test is Oil Governance*, The Daily Monitor

³ October 24th, 2010 was chosen as a benchmark date because it was the first official day of the 2011 national election campaign

commentaries, while the remainder are straight reports. Of the forty-three articles assessed, twenty-eight discuss the levels of systemic corruption throughout Uganda as well as how oil may further exacerbate it. The following quotes demonstrate some of the many reasons why Ugandans appear to be sceptical of oil.

On November 11, 2010, in *First Family 'too close' to Oil Sector*, published by The Daily Monitor, Mugerwa noted:

From a governance perspective, the military control of the oil exploration areas by two of Museveni's close relations is evidence of the increasing 'personalisation of control' by Museveni of the oil and gas sectors. Such deviation from democratic principles at this stage is highly undesirable.⁴

Another example demonstrates current attitudes towards the resource: On November 22nd, 2010 Angelo Izama, in *Slippery Politics of Uganda's Oil*, stated

Uganda's oil future is bleak. It is unlikely that oil revenues will be better managed and may be that is where the focus of opponents of the incumbent president ought to be laying emphasis while campaigning on this subject.⁵

The two major issues that emerged from the press coverage of oil are corruption, and economic opportunity. I examine both issues, and follow with a discussion comparing the positive, negative, and relatively neutral discourse in the media.

⁴ Mugerwa, Y. (2010, November 11). First family 'too close' to oil sector. *The Daily Monitor*. Retrieved from <http://www.monitor.co.ug/News/National/-/688334/1051166/-/cl9icez/-/index.html>

⁵ Izama, A. (2010, November 22). Slippery politics of Ugandan's oil. *The Daily Monitor*. Retrieved from <http://www.monitor.co.ug/SpecialReports/Elections/-/859108/1057918/-/jli760/-/index.html>, It can be argued that this sentiment demonstrates the authors opinion, however it is important to note because what he has said is being read across the country, those who may not have been sceptical about oil before reading his thoughts may be afterwards.

2.1 On Corruption

Many of the articles assessed either discuss particular instances of corruption, focusing on accusations against particular government ministers, or discuss why corruption is likely to increase as the oil industry expands.

State Security Minister Amana Mbabazi and Energy Minister Hilary Onek have been accused of accepting financial gifts from firms trying to establish a foothold in Uganda's oil industry. Both ministers have also been accused of corruption in other cases, notably the Commonwealth Head of Government Meetings (2007) scandal which is discussed in section 3 of this paper.

Whether or not the recent accusations against ministers Mbabazi and Onek turn out to be proven, the fact that they are being made indicates widespread suspicion of, and lack of public trust in, the government.

Many Ugandans know that oil wealth has led to pervasive corruption in much of Africa, enriching a few individuals but contributing little towards national development. If the government is able to combat, and eliminate corruption than oil may be a catalyst for development, yet media coverage suggests that the public does not expect this to happen.

2.2 On Employment and Economic Opportunities

Since discovering oil, the Government of Uganda has repeatedly assured its people that they will directly, economically benefit, either by participating directly in the industry, if they have the credentials, or by benefitting from the many service industries needed to support oil – hospitality, transport, and general services, etc.

In an election rally held, January 1st 2011 in the western city of Hoima, electoral candidate, and incumbent president, Yoweri Museveni, claimed that over 120,000 jobs will be created by the exploitation of the country's oil wealth. He stated that all of positions will go directly to Ugandans.⁶ Yet as time has passed, people have begun to question whether this employment bonanza will really happen.

In "Where are Ugandans in Lucrative Oil Deals?", (2011) Chris Obore, notes how many local firms, capable of providing services for the infant industry, are losing contracts to foreign companies. The minister responsible was quoted as saying that Ugandans have been "sleepy to date"⁷ while foreign firms have mobilized. Critics, however, including Ugandan firms, have claimed that foreign companies have benefited from insider information and that they have, to date, been left in the dark.⁸

Overall, articles published since October 24th, 2010, paint a pessimistic picture of the oil industry's future in Uganda. Much of the coverage focuses on how Uganda could become the next Nigeria, how Ugandans are unlikely to prosper from the industry, and how oil could return Uganda to its once violent past.

Some positive coverage is evident, however. Some reports suggest that Uganda is well positioned to learn from the mistakes made by other African oil states, while others note how some Ugandans remain optimistic the crude may provide employment in related service industries. And it is certainly true that Uganda is in a unique position, it has discovered oil rather late (compared to other African oil states), and given the

⁶ Mugerwa, Francis. (2011). *Hoima Worries Over Oil Land Pay*, The Daily Monitor. Retrieved from <http://www.monitor.co.ug/SpecialReports/-/688342/1081414/-/ubyl3t/-/index.html>

⁷ Obore, Chris. (2010). *Where Are Ugandans In Lucrative Oil Deals?* The Daily Monitor, Retrieved from <http://www.monitor.co.ug/News/National/-/688334/1074308/-/cjb6lz/-/index.html>

⁸ Ibid.

lessons learned from past failures in Nigeria, Gabon, and Sudan, Ugandans could take steps to put these lessons to good use.

However, it should be noted that one of the recurring themes throughout the press coverage, even the more optimistic articles, is that the state needs to be more transparent, more accountable and needs to systematically combat corruption. If the curse is to be avoided, "Oil deals must be open and transparent..."⁹

Thus, overall we can consider the literature published in *The Daily Monitor* and *New Vision*, from October 24th, 2010, to the present, to be largely negative. Of the 26 articles published in *The Daily Monitor*, 17 of them can be considered negative, 6 mixed and 3 positive. Of the 17 articles published in *New Vision*, 9 can be considered negative, 5 mixed and 3 positive.¹⁰

Although much of the press coverage regarding oil appears to be negative it does not seem to have played a significant role in the most recent election. In fact, President Museveni and the National Resistance Movement received an even greater mandate than they did in the 2006 election. This suggests that oil has yet to play a significant role in Ugandan politics. This is possible for two reasons. First, the oil industry is in its infancy and thus citizens may be willing to give Museveni and the NRM an opportunity to govern the resource. Second, Ugandans may be sceptical of oil, but it may not have, and likely did not, play a crucial role in the most recent election. Other issues, such as health care, education, infrastructure, law and order and national security, likely played greater roles. As oil becomes more important and as the industry begins to unfold, we can assume that it will play a much larger role over the next five

⁹ Kasita, I. (2011, February 10). Oil deals should be open, says law journal. *New Vision*. Retrieved from <http://www.newvision.co.ug/D/8/220/746270/Oil>

¹⁰ I assess whether or not each article was positive, negative, or mixed by assessing each on a case by case basis.

years. Therefore, if President Museveni and the NRM wish to continue governing past 2016, they should systematically address unfolding scepticism, and should live up to the promises made throughout the recent campaign. If Museveni is unable to deliver the 120,000 oil jobs, he will have a much more difficult time seeking a fourth term in office.

3: OIL, ECONOMICS, INSTITUTIONS AND CONFLICT

Common sense might suggest that access to resource wealth should be conducive to national economic development. There is, however, a large literature that suggests that massive resource endowments, particularly oil, simply enrich a minority. The evidence indicates that many of the world's most resource-rich nations suffer from stagnant growth, high poverty rates, and increasing income inequality.

Development economists have demonstrated that resource abundance, as well as the type of resource, can have dramatic influences on a nation's economy— both negative and positive. In some—Nigeria, Sudan and the DRC – resource wealth has done little to promote development and has been associated with pervasive corruption. In others—Norway, Canada, Australia, for example, resource wealth has been associated with enhanced national development. Ross (2003) shows that for every nation negatively affected by resource dependence, there are two, that have benefited from their resources. And, it is not just the developed economies that can benefit from resource wealth as the case of Botswana reminds us.

This section explores how the oil industry has the potential to influence the economy of Uganda by examining three of the economic causes of the resource curse:

- Revenue volatility;
- Dutch Disease; and
- Crowding out effects.

3.1.1 Revenue Volatility

Oil is one of the most volatile commodities on the international market. From 1974 to 1983, the price of oil increased from US \$15.72 to US \$61.5 per barrel, yet by 1999, the price of oil returned to near 1974 levels, at approximately US \$18.5 per barrel. The dramatic jump in revenue provides problems for states -- not only are they unable to plan effectively for the future, as they do not know how much revenue will come in from the sale of the commodity, but they are also unable to pursue what Stevens (2003) suggests is 'prudent fiscal policy'. Auty (1998) concluded that revenue volatility, especially when discussing oil, is perhaps the most likely explanation of the resource curse for these reasons. Ross (1999) suggests that the instability of the commodity market limits growth in resource based nations. Revenue volatility however, is only a real concern if the state exports a significant portion of its oil reserves. It is estimated that Uganda will produce 150,000-200,000 barrels per day once production reaches maximum capacity.

In July of 2008, the cost of a barrel of crude oil hovered around US \$147.00., while 5 months later, the price had declined to US \$30.28/barrel, a near 80 percent drop, further indication of the volatility of the commodity.¹¹ Developed states that rely on the oil industry, such as Canada and Norway, experience economic impacts when prices fluctuate. This is exemplified by the impact the oil industry has on Canada's currency, often considered a petro-dollar. While Canada and Norway, due to many factors, are able to cope with the fluctuations, less stable states, such as Nigeria, Angola, and Sudan do not have measures in place to address drastic volatility. Revenue volatility is one economic explanation why resource dependent states suffer from the resource curse. By utilizing most of its reserves to satisfy the domestic market, Uganda can learn from the

¹¹ The significant fluctuation in 2008 has been largely attributed to the global economic crisis.

mistakes made by other African oil states and limit the effects of international price volatility. Based on current policy it appears as though Uganda is taking measures to ensure the effects of international price volatility are minimal. President Museveni has continually stated that Uganda's reserves will satisfy the domestic market before being exported.¹² As well, Uganda continues to seek partners to provide the financing to construct an oil refinery. Revenue volatility is a serious concern for oil states; given the statements made by President Museveni, as well as the policies currently in place, it appears as though Uganda is attempting to limit the effects of the highly volatile market.

3.1.2 The Dutch Disease

The Dutch Disease, since the decline of the Dutch manufacturing sector following the discovery of the Groningen gas fields, is used to explain why oil exporters experience stagnant or even negative growth. The Dutch Disease, according to Sachs and Warner (1995) is the most telling factor in resource dependent economies. Sachs and Warner indicate that the Dutch Disease has two primary effects on a nation's economy. First, during a resource boom (considered an improvement of the terms-of-trade or a new discovery, (Martin 2003)) the nation's exchange rate increases dramatically, and in turn reduces the nations competitiveness of non-commodity sectors, notably manufacturing and agriculture. Second, during a resource boom investment is funnelled away from those industries, because lower prices means lower profits, and is instead used to further develop the commodity market. According to Sarraf and Jiwanji (2001) by pulling capital and labour away from manufacturing, the nation experiences reduced total factor productivity, because commodities require less innovation and

¹² Biryaberma, E. & Malone, B. (2010). *Uganda to start building oil refinery in 2012*. Reuters News Agency, retrieved from <http://www.reuters.com/article/2010/11/30/uganda-refinery-idUSLDE6AT0O620101130>

labour. Although there are some case studies, such as Algeria, conducted by Conway and Gelb (1988) that suggest the Dutch disease does not always take hold, as Algeria's manufacturing sector increased, and its exchange rate declined, this simply is not the case for most major oil producing nations, as noted by Stevens (2003). In order to combat the effects of the Dutch Disease Uganda needs to prevent currency over valuation, as well should utilize the revenues generated from oil to invest in other sectors, notably agriculture and manufacturing. In doing so, Uganda can avoid the negative repercussions of the Dutch disease and can use oil revenue to promote widespread growth.

3.1.3 Crowding Out Effects

When the state enjoys a resource boom, other sectors, manufacturing and agriculture, often find it difficult to acquire needed resources in order to develop. This is because the states, as well as business, are more likely to re-invest in the commodity already generating large rents. Le Billon (2005) suggests that developing nations mismanage resource revenues. He notes that they often fail to diversify their investment away from commodities towards other industries that could limit the effects of revenue volatility or and the Dutch Disease. Auty (1997, 651) notes that one of the reasons why resource abundant nations economically underperform is because resources are diverted away from sustainable, growth promoting industries. Thus, although crowding out occurs in many oil-producing nations, it is not directly associated with the resource, rather is reflective of bad policy decisions made by oil states.

We can also explain crowding out effects in an international context. Foreign investors are usually not interested in the long-term development of low-medium yielding industries, rather are interested in high rents. As such, resource-abundant nations

experience foreign direct investment in exploiting those resources, rather than in sectors that are more likely to generate long-term economic development.

Revenue volatility, the Dutch disease and crowding out effects, are all interrelated. We cannot explain low growth rates in resource-dependent countries simply based on one of these factors, they must all be considered when examining case studies. What we do know, is that when compared with their non-resource dependent counterparts, nations that are dependent on natural resources, have tended to experience slower overall economic growth. Uganda needs to recognize the failures made by other oil states, and needs to establish and implement policies able to prevent these economic problems. While there is variation in the literature, we can ultimately conclude that, on balance, the economic impacts of resource dependence are negative. Now I turn to examine how this literature may provide insights into the challenges that may be involved in oil production in Uganda

3.1.4 The Ugandan Economy

According to the World Bank Country Profile (2010) Uganda's economy has grown at a rate of over 5 percent/year since the mid-1980s.¹³ Uganda has also reduced poverty rates from 57 percent (1992/93) to 31 percent (2005/06) in 13 years.¹⁴ On average, national incomes are rising due to the emergence of a middle class. Income inequality is still a significant hurdle for the nation, but due to sustained growth, the World Bank expects that income inequality will continue to steadily decline. The Bank, although

¹³ World Bank. (2010). Uganda: Maintaining Growth – Moving Towards Structural Transformation. The World Bank, retrieved from http://siteresources.worldbank.org/IDA/Resources/73153-1285271432420/IDA_AT_WORK_Uganda_2010.pdf

¹⁴ Ibid. p.1

optimistic, remains cautious about Uganda's economy for several reasons, one of them being, '...the forthcoming introduction of Oil to the nation's economy.'¹⁵

Since coming to office President Museveni has been able to turn one of Africa's post-independent catastrophes into what Kangave (2005) considers "...a model for African countries."¹⁶ In 1995, Uganda adopted its national constitution; in 2001, 2006 and most recently in February 2011, Uganda held national democratic elections. In 2002, the IMF's Deputy Managing Director applauded Ugandan authorities' ability to implement sound economic policy and structural reform, both of which have greatly contributed to Uganda's high, sustained growth rates.¹⁷ As well, the nearly two decade long insurgency led by the LRA in Northern Uganda has ended, as the military forced the LRA to flee to neighbouring nations.

President Museveni has ushered in dramatic change for Uganda. Progress has occurred in almost all fronts; the nation is largely peaceful, the economy continues to grow, and social welfare, such as access to education and healthcare, continues to improve. Uganda's notable success in combating the HIV/AIDS epidemic is further evidence of structural change¹⁸. Uganda is currently on track to meet many of its national development goals by 2015, and is currently working towards implementing a National Development Plan (NDP), building off the Poverty Eradication Action Plan (PEAP). However, the introduction of oil to the economy potentially threatens much of the progress made over the past two decades. Institutions such as the World Bank, International Alert, and others, as well as Ugandan nationals (as noted in section one, as well as in Dispatch, 2011) remain cautious.

¹⁵ Ibid. p.2-3

¹⁶ Op. Cit. Kangave, p.147

¹⁷ Ibid. p.147-148

¹⁸ Hogle, J. (2002). *What happened in Uganda? Declining HIV Prevalence, Behaviour Change, and the National Response*. U.S. Agency for International Development, Washington, D.C.

There are four reasons why this is the case. First, no African nation to date has been able to utilize its oil wealth to promote economic development. Nations such as Sudan, Angola, Gabon, Congo-Brazzaville, and perhaps the most notorious, Nigeria, provide evidence that oil wealth is not beneficial. While President Museveni promotes the oil industry, Uganda's citizens have neighbouring Sudan to remind them that oil wealth does not necessarily translate into development for the poor. Southern Sudan, one of the poorest and most underdeveloped regions in the world, is also the location of Sudan's vast oil reserves that for decades have provided huge rents to the Khartoum government, yet very little for the people of the South.

Second, approximately 80% of the employed Ugandan population work in the agricultural sector. Due to its high altitudes and relatively consistent rainfall, Uganda has one of the highest yielding agricultural lands in central and east Africa. Yet as discussed earlier, resource-dependent economies, or those that are transitioning to resource-dependence, often experience stagnation or even decline in their manufacturing and agriculture sectors.¹⁹ McSherry (2006), for example, notes that Gabon and Equatorial Guinea have enjoyed oil-related growth, yet their agricultural industries have "...crumbled while inequality and poverty persist." If much of Uganda's growth in the future is going to come from the oil industry, history suggests, the agriculture industry may also suffer. Overall growth may increase, as has in Equatorial Guinea, yet growth in agriculture will likely stagnate, and as such, the real incomes of the public will stagnate as well. This is a real concern for Ugandans due to the sheer number of those who rely on the agricultural sector. However, as noted earlier, Uganda, under the direction of President Museveni, has improved the quality of its institutions, and has improved national living standards. Thus, the problems that have occurred elsewhere are not necessarily going to occur in Uganda, though they should be recognized in moving forward.

¹⁹ This is well documented in Sachs and Warner 1995.

Third, inflation during the 1980s reached 250 percent, yet under the current regime, had been dramatically reduced, to 2.3 percent by the late 1990s (Musunguzi and Smith 2000). Uganda has been successful in reducing extreme inflation, yet there is evidence that the introduction of oil to an economy can have inflationary consequences. McSherry (2006) notes how inflation was one of the leading factors contributing to Dutch disease when the term was first established. In the 1970's the Dutch began commercially producing gas found near the northern city of Groningen. The 'disease' kicked in when investment was drawn away from productive sectors, notably manufacturing, and was re-directed towards gas production. Inflation increased as spending increased, and the national currency, the gilder, became over valued in price. One of the reasons why real exchange rates appreciate is because of a combination of increased government expenditure and increased foreign direct investment in the resource sector. Examining six oil producers, Gelb (1988) concluded that all of them experienced increased inflation, which in turn contributed to the onset of Dutch disease. He specifically noted how Nigeria experienced extreme Dutch disease, and dramatic inflation, during the 1980s. As inflation increased, the agricultural sector stagnated, and increased general poverty. People who relied on agriculture and subsistence farming for their income lost purchasing power due to the onset of high inflation. If Uganda experiences high inflation and an over valuation of the shilling, than it will be the poor who suffer.

Many African oil nations experience high inflation during resource booms. Yet, Uganda's experience in coping with high inflation, combined with the lessons learned from other oil states, presents an opportunity for the state to develop oil without causing hyperinflation or currency over valuation.

Over the past two decades, Uganda has sustained high growth. Based on what we know about oil, notably that it often leads to high-inflation, and over-valued exchange rates, oil states often experience slow growth, increased unemployment and economic inequality – all causes for concern. Yet, as was noted throughout this section, Uganda, under the direction of President Museveni, has been able to turn a catastrophic situation into what has been termed ‘a model for African nations’. Much of Uganda’s success since 1986 can be directly linked to the government’s ability to address severe economic problems, notably high inflation and chronic poverty. The state’s ability to reduce poverty by nearly 3% per year since the early 1990s demonstrates a high level of capacity not witnessed in other African oil states. Thus, while oil can cause economic catastrophe, and has on many occasions throughout Africa, we cannot assume that because oil has caused problems elsewhere that it will in Uganda as well.

3.2 Oils Impact on the quality of the state

In 2001 Michael Ross concluded that not only does oil hinder democracy, but that “barrel for barrel, oil harms democracy more in oil-poor countries than oil rich ones.”²⁰ Uganda has relatively small oil reserves when compared with Nigeria, Angola and Sudan, Africa’s largest producers. One could assume that because Uganda’s reserves are relatively small that the problems associated with oil would be minimal, however, Ross (2001) suggests that states with smaller reserves are more prone to the negative consequences of the resource curse.

There are two plausible scenarios for Uganda with regard to its oil industry. First, Uganda follows a path similar to that of Angola, Nigeria, or Sudan and becomes less democratic with weaker institutions, or second, Uganda becomes the first African oil

²⁰ Ross, M. (2001). Does Oil Hinder Democracy?. *World Politics*, 53(3), 343

state able to prevent the resource curse. Considering Uganda has relatively small reserves, evidence from Ross suggests Uganda will follow a path similar to its African neighbours.

Throughout this section, I discuss the impacts of resource abundance on the quality of the state. I build on the works of Karl (1997), Ross (1999, 2001, 2002), Moore (2004) Le Billon (2005), Fearon (2005), Humphreys (2005), Dunning (2005), Melhum (2006) Melhum, Moene and Torvik (2006) and many others.

Melhum, Moene and Torvik (2006, 2) suggest that diverging growth experiences of resource-rich nations are related to the differences in the quality of public institutions. They argue that in order to understand how resource abundance influences states, we must examine state institutions. It is important to examine institutions because states with weaker, more corrupt, and less intrusive institutions are more likely to endure the negative aspects of the resource curse. Consequently, as Martin (2001) noted, states with stronger, less corrupt and more intrusive institutions are more likely to benefit from resource abundance; he noted this specifically in the case of Botswana. Ross (2002) suggests that there are three ways in which resource dependence influences the state, increased corruption, weaker governance and less accountable government. Corruption, weak governance and accountability are all themes I will address here. I begin by discussing accountability and taxation.

3.2.1 Taxation and Accountability

In western liberal democracies, the process of taxation connects states and their citizenry. One of the founding principles of the U.S. Declaration of Independence is 'taxation with representation' and the theme has been consistent throughout the development of most western states, especially, as Moore (2001) notes, in the

development of Western Europe. The crucial component of taxation is that citizens feel inherently bound to the state and that they demand accountability from the state because their income provides revenue. Resource-dependent states are not greatly reliant on public taxation; rather they sustain themselves on the rents generated from the exportation of raw materials. Karl (1997) argues that oil states are not as concerned with sound institutional development because, regardless of the quality of public institutions, they will always have a source of revenue. Non-resource abundant states have little choice but to generate revenue through taxation, as there are few alternatives.

States are left with essentially two options, tax the public, or rely on resource endowment. States like Canada, Norway, and to an extent Botswana, have used their resource windfalls to supplement their public institutions. Nations such as Sudan and Nigeria, however, continue to rely on oil rents.

Moore (2004) notes how the transition in Europe to tax states, from domain states, resulted in one of the great historical transformations in modern European history, and that without the transition to a tax state Europe would look very different than it does today.

...the penetration of the tax apparatus into the private economy had enormous consequences for society generally, ranging from reshaping culture and values through to the creation of a large, civilian public bureaucracy that itself became a distinct and powerful societal force.²¹

Taxes unify the citizenry, create accountability, and provide consistent revenue for the state. By contrast, as Ross (2002) notes, governments that do not need taxation for revenue have little motivation to promote it.

²¹ Moore, M. (2001). Political Underdevelopment: What Causes "Bad Governance". Institute for Development Studies, Sussex, UK, 298

If states like Sudan and Nigeria had utilized their oil rents to promote the development of public institutions, the overall quality of the government would be much higher than it is today. There is a greater likelihood that these states would enjoy higher rates of development than they do today. This has not happened however. Fjelde and Hanne (2009) argue that resource-dependent states have a tendency to not support growth/development promoting strategies. Funds generated from resources support the government regardless of the quality of governance, and in doing so allow states to act independently of the will of the people. The fundamental problem here is that states do not invest in its citizens, and citizens in return demand little accountability (relative to states that gain their revenue by taxation). Humphreys (2005) sums the tax argument by stating that the link between state and society is virtually non-existent in resource dependent states, thus creating less incentive for the state to develop strong institutions.

By strengthening the tax system, the Government of Uganda has the opportunity to create further connection between itself and its citizenry. As noted by Kangave, the Uganda Revenue Authority has been able to make progressive strides over the past two decades.²² While far from the sophistication of a European tax agency, the states investment in the URA demonstrates its commitment to the taxation process. Uganda would benefit from utilizing oil revenues to strengthen taxation.

3.2.2 The Rentier State: Corruption on the Rise

The rentier state has two fundamental interests, one – maintaining their power, two – personally profiting from resource rents. Rent-seeking policies do not promote growth, and do not result in development, rather increase overall levels of corruption. While some studies find that high reliance on oil increases the risk of civil conflict (Collier

²² Op. Cit. Kangave, 147-148. Kangave also notes that Uganda needs to continue investing in the URA in order to ensure taxation continues to increase.

and Hoeffler, 2002, Fearon and Laitin 2003 and Fearon 2005) other studies (Moore 2001, Robinson, Torvik and Verdier 2006, and Ross 2002) suggest that resource rents, notably oil, can also decrease conflict risks. This occurs via what Moore calls rent-seeking. Rentier states focus on clientele networks rather than taxation or national growth-promoting strategies. Political leaders rely on rents to buy-off political opposition. They solidify their position through patronage. Rents can also be used to build up military forces, secret police networks, etc. which can also reduce the likelihood of civil conflict.

Fjelde and Hanne (2005) show that governments often pay-off the state military, and in doing so create a strong interest among the military in maintaining the status quo. This is an example of how rentier states can utilize resource rents to expand clientele networks, and thus help reduce the risk of armed rebellion. Rent-seeking policies do not promote growth, and do not result in development, rather increase overall levels of nepotism and corruption. There is little accountability in a rentier state because the state pays off those who are best positioned to question its practices and authority.

As Ross (2002) notes, governments become less accountable to the citizenry because no one who is capable of enforcing change has an interest in demanding it. Governments have built up and solidified their clientele networks, bringing the wealthy and powerful into the fold. Avoiding rentierism is important for oil endowed nations because rentierism results in increased corruption, which is bad for economic growth, according to Fisman and Svensson (2007).

3.2.3 The Importance of Institutions

Robinson, Torvik and Verdier (2006) suggest that the quality of institutions is more important than resource dependence in determining development outcomes and

conflict risk. They argue that low quality institutions lead states to make poor or bad decisions. High quality institutions that are imbued with a sense of public good however prevent states from misusing resources, and in doing so are responsible for better decision-making at the state level. High quality institutions, such as an effective military, do not necessarily force the state to make good decisions, however those with a sense of public responsibility do.

Ross (2001) presents three effects oil has on the state, the rentier effect (as noted above), the repression effect, and the modernization effect. Ross draws connections between modernization theory and the poor-decision maker; African oil states invest little of their revenues into growth promoting infrastructure, notably education, and in doing so limit the potential for democratic change. From the states point of view, this could be considered logical, as they are strengthening their own position. However, this demonstrates that the state is making self-interested decisions.

The poor-decision maker pursues bad investment policies, limiting economic growth and democratic reform by making bad choices. Those connected with the state may benefit, but in general, the quality of the state declines because the average citizen is left out. Those left out of the states inner circles could become motivated, in time, to form opposition to the state, leading to secessionist movements, as witnessed in Southern Sudan, Cabinda province of Angola, and the Movement for the Emancipation for the Niger Delta in Nigeria.²³

Moore (2001) suggests there are seven “political pathologies” for oil dependent states. First, they become autonomous from the citizenry. Second, they experience increased external intervention, as foreign actors support governments to secure their oil interests. Third, oil dependent states are prone to “coupism”, where the state spends

²³ While I do not suggest the misuse of oil revenues by the state was the sole cause of these secessionist movements there is evidence suggesting this misuse was a significant factor.

significant amounts on their security apparatus. Fourth, there becomes an absence of incentives for civic politics; political debates become ideological, rather than on the quality of government, and in doing so exacerbate already existing social divisions. Fifth, states become more vulnerable to subversion; oil rents provide motivation as well as feasibility to would be rebels. Sixth, oil dependent states become less transparent, and no longer involve important public institutions in the political process, notably the legislature. Seventh, oil states are more likely to have ineffective bureaucracies; the goal of the oil dependent state is to increase its hold on power, and in doing so limits the quality of public institutions. The seven political pathologies, as developed by Moore, give further insight as to how resource dependence influences the development of the state. Fearon (2005) argues that the quality of the state is the determining factor concerning the resource curse; he argues that weak, corrupt and incapable states are more likely to suffer from the resource curse.

Resource dependence can lead to many negatives, lower literacy rates, higher infant mortality rates, higher levels of malnutrition, higher levels of corruption, to name a few. However, it has also been noted that resource dependence can strengthen the state, and can prevent the onset of conflict by developing a highly sophisticated security apparatus. Yet, under both scenarios, economic growth usually stagnates. Resource dependent states should invest in public institutions and should make good decisions because, not only is it moral, but also limits the likelihood that the state will succumb to internal violence or conflict. Even if a state spends significant amounts on their security apparatus, if they are neglecting the public, dissension will exist. When revenues from resources dry up or significantly decline, the state may not be able to fund its sophisticated security apparatus and may not be able to cope with the public backlash. Once full production begins Uganda's oil reserves are not likely to last more than two

decades. Therefore, while other states may be able to survive on vast oil reserves, Uganda should utilize its relatively small reserves to strengthen other institutions.

3.2.4 The Impact on the Ugandan State

Throughout this section, I discuss three particular areas of concern for the government of Uganda, corruption, rentierism and poor decision-making. As International Alert noted:

Oil has raised the stakes of political competition, and the potential for an escalation of conflict and subsequent reversal of development gains in the country has to be taken seriously. Leaders face a historic opportunity to reframe their approach where necessary, in order to counter such risks. Failure to do so, or continued “business as usual” approaches to public life, could prove disastrous.²⁴

One of the primary reasons why Ugandans are sceptical of the oil industry, as discussed in section 2, is because of the high rates of corruption within the state.

3.2.5 Corruption in Uganda

According to Transparency International, corruption in Uganda is widespread and exists in all levels of the state; national, regional and local²⁵. Over the past decade, the government has introduced anti-corruption policy, as a mechanism to combat widespread corruption. However, there is little doubt amongst the public that corruption

²⁴ Op. Cit. International Alert, 82.

²⁵ As noted in the 2001-2010 Corruption Perception Indexes (CPI)

is prevalent, even at the highest levels of the state, as evidenced by the 2009 Global Corruption Barometer.²⁶

Oil corrupts, and oil states usually have higher overall rates of corruption than non-oil states.²⁷ We know oil can lead to higher corruption, especially in weak states, thus oil may lead to heightened corruption in Uganda.

Anti-corruption policy dominates the Ugandan political landscape. In 2007 Uganda hosted the Commonwealth Head of Government Meetings (CHOGM). CHOGM brought unprecedented investment and infrastructural upgrades to Kampala. However, although CHOGM was a political success, it was marred by accusations of massive corruption. In the spring of 2010, the Ugandan parliament began investigating corruption charges against high profile government ministers, as high up as the nation's vice president. Within months, it became clear that not only was CHOGM a landmark case of corruption, but would also have a dramatic political impact. Estimates currently suggest that \$200 million USD, representing 10% of the nations entire annual exports, were either directly stolen by state officials, or were re-directed towards projects that had little to no relationship with CHOGM.²⁸ This figure is substantial relative to the size of the economy, and indicates the unwillingness and inability of the state to prevent or act against corruption. CHOGM particularly demonstrates how corrupt officials have been able to obtain high-ranking government positions, thus it is reasonable that Ugandans have low levels of trust towards their government.

²⁶ 2009 was the first time data was made available on Uganda.

²⁷ Ross (2002) further solidifies this argument by presenting the case of Angola, one of Africa's largest oil producers. Ross notes how in 2001 Angola lost approximately \$1 billion USD due to corruption, a staggering amount considering it is one of the least developed countries in Sub-Saharan Africa. Sachs and Warner (1999), as well as Gylfason (2001), provide even further evidence, concluding that resource dependence corrupts.

²⁸ Mugerwa, Y. (2010, December 10). Uganda: Dutch government cuts Sh 10 billion aid over CHOGM scandal. *All Africa News Agency*. Retrieved from <http://allafrica.com/stories/201012100101.html>

Corruption is widespread throughout Uganda, as noted by the 2010 Corruption Perception Index (CPI) score of 2.5²⁹. According to Fisman and Svensson (2007) corruption often results in slow economic growth, a decline in state capacity and increasing authoritarianism. Since President Museveni came to office in 1986 Uganda has sustained significant economic growth, has become more democratic, and is, overall, a more effective state.³⁰ In the 2001 CPI, Uganda received a score of 1.9. By 2010 Uganda's score improved to 2.5, an indication progress is being made. This is not to suggest corruption does not exist in Uganda, as corruption still remains high; in 2009 25 percent of Ugandans surveyed felt parliament was extremely corrupt, 38 percent felt public officials were extremely corrupt and 53 percent reported having paid a bribe to a public official at least once. Although overall corruption has declined since 2001, there is growing evidence to suggest that corruption could be on the rise again. In 2005 Uganda scored 2.8, 0.3 points higher than the 2010 score. High profile cases such as CHOGM reflect corruption at high levels of the state, and indicate how corruption in Uganda may be on the rise, rather than on the decline. The long-term trend suggests the latter while the short-term suggests the former.. In 2010, 67 percent of Ugandans surveyed³¹ believed corruption had increased over the past three years. Although difficult to tell, the CHOGM scandal, which received thorough attention in the mainstream media, likely played a role in this.

Ross (2002) argued that developing states that rely on oil are, on average, more corrupt than non-oil dependent developing states. Corruption is bad for growth (for specific econometric case studies see Feld & Voigt 2003; Mo 2001 and Tanzi & Davoodi

²⁹ In 2010 Uganda received a score of 2.5, out of 10, where 10 is the highest and 0 the lowest. Uganda subsequently ranked the 127th most corrupt, out of 175.

³⁰ Before Museveni came to office, state capacity in Uganda was near inexistent, basic public goods were difficult to come by and security was limited.

³¹ As a part of Transparency Internationals Global Corruption Barometer, Appendix C – Table 1

1997).³² Fisman and Svensson (2007) argued that corruption in Uganda has limited the nation's growth; they also argued that growth could be higher, and more equitable if corruption declined. Deininger and Mpuga (2005) note two key impediments to Ugandan development caused by corruption – one, its impact on the “...nature and quality of public service provision” and two, its impact on “...the investment decisions by foreign and domestic private entrepreneurs [who], in return, will affect the size of a country's tax basin.”³³

Corruption has a negative impact on the nature and the quality of public service provision. One of the reasons this occurs is because state officials misuse funding for personal profit. The CHOGM case demonstrates two different ways in which public officials misused government funds; one – officials re-directed earmarked funds towards their own personal bank accounts, and, two – officials granted contracts to personal clients in a process that almost certainly involved kickbacks. In both scenarios, public funds were misused and had no positive impact on the national economy.

Corruption in Uganda remains high. One of the key impediments to potential oil related growth in Uganda is corruption. As well, corruption is one of the reasons why Ugandans and institutions such as the World Bank and International alert, remain sceptical about Uganda's oil. The state needs to ensure oil wealth is not used for corrupt acts, as well that it is not perceived amongst the public as fuelling corrupt acts. Cases like CHOGM demonstrate why citizens may be sceptical of their government. There is no question, corruption exists and is widespread in Uganda. It is clear that Uganda has the capacity to fight corruption, as indicated by the states' ability to reduce overall

³² Deininger, K. & Mpuga, P. (2005). Does Greater Accountability Improve the Quality of Public Service Delivery? Evidence from Uganda. *World Development*, 33(1)

³³ Op. Cit. Deininger and Mpuga, p.172

corruption since 2001. However, recently increasing corruption, as well as the corruption reported in the Global Corruption Barometer is significant cause for concern.

3.2.6 Rent-Seeking in Uganda

Rentier states do not pursue taxes, but rather receive a substantial amount of their funds through high resource rents. Moore (2001) suggests developing states would benefit from establishing and promoting a stronger tax basin because it would result in higher accountability, greater transparency, and overall higher levels of development. Rent-seeking activities stall the growth of small to medium sized enterprise, and limit foreign investment. The rentier state, due to a combination of corruption and incapacity, limit and prevent the creation of new business, and in doing so limit the development of an alternative source of government revenue from taxation. Mwenda (2007) provides evidence to suggest that the National Resistance Movement and national government are utilizing public funds to solidify their clientele networks, and in doing so are taking further steps towards becoming a rentier state. This is not to suggest that Uganda is in fact a rentier state, as it is not receiving rents from oil yet. However, Mwenda notes that by reinforcing already existing clientele networks the government could become rent seeking once commercial oil production begins. This is cause for concern.

Uganda currently earns most of its income through trade, both with its neighbours and on the international market, as well as through taxes. Over the past decade, the Ugandan Revenue Authority has been able to make considerable progress in collecting revenues. However, the problem facing Uganda is that oil rents could potentially negate the progress the URA has been able to achieve. Oil rents are very high, which essentially means that oil does not cost much, relative to value, to extract. Oil rents are very easy to extract relative to the taxation process, which requires

considerable organization and sound public institutions. The problem at hand is that the state may chose to pursue oil rents, rather than public taxes. Taxes are not popular with the public, and require significant investment, in finances, in human resources and in time. However, as noted by Moore (2001) a sophisticated tax system is one of the crucial ways in which states connect with their citizenry, and vice versa. Although Ugandans, like most, may not want to pay taxes, by doing so, they will be able to demand higher accountability. If the government focuses on oil rents alone, and ignores public taxation, than progress made by the URA over the past decade will be of little long-term consequence.

3.2.7 Poor Decision Making

Deininger and Mpuga (2004) note how “...high levels of corruption have been shown to bias public spending in undesirable directions and reduce the quality with which such services are provided.”³⁴ In pursuing self-interest, public officials are making bad policy.

Uganda has one of the most well equipped and well-funded armed forces in sub-Saharan Africa. This has been a longstanding priority of the Museveni government, as he believed national strength was rooted in the strength of the military. Museveni’s resistance movement emerged following the devastating war with Tanzania; its East African neighbour overwhelmed Uganda’s military deposing Idi Amin. It is important to note that Museveni himself is a general in the national army and that he receives substantial political support from the military. While investment in the armed forces was needed in his earlier years Uganda’s military is now both fairly modernized and well equipped, as well, the internal threats posed by groups such as the LRA no longer

³⁴ Op. Cit. Deininger and Mpuga, p.171-172

exists. At this time there seems to be no real reason why the government should not allocate funding to other areas.³⁵ Unless there are direct military threats, military spending, does not promote growth or poverty reduction or income equality.

At times, the Ugandan government makes poor decisions. However, poor decision-making is not unique to Uganda, or to sub-Saharan Africa or to the developing world. It would be bad policy and poor decision making if the government does not continue to fight corruption, or does not continue to invest in taxation.

Throughout this section, I have discussed how resource dependence influences the quality of the state. Resource dependence often results in greater corruption, weaker and less intrusive institutions, and overall lower levels of state capacity. However, I have also argued that resource dependence does not negatively influence states with good governance, or sound institutions. As the World Bank (2010) notes, "To reap the oil dividend, Uganda must maximize the social benefits through adequate investment and prudent macroeconomic management of the oil sector, as well as transparency and management of expectations."³⁶

Ugandans are sceptical of oil because African oil states generally experience an increase in corruption, a decline in state capacity, and a decline in the quality of government institutions. Ugandans are reminded of the potential negatives of oil by the plight of South Sudan, Nigeria, and other African oil producers. However, by fighting corruption, improving the tax system, increasing transparency and accountability and by making good choices, the Ugandan government can learn from the mistakes made by others.

³⁵ Uganda is one of few AU nations participating in the stabilization force in Somalia, which lead to an Al-Shabob terrorist attack in Kampala during the finale of the 2010 World Cup.

³⁶ World Bank (2010). *Africa's Pulse: An Analysis of Issues Shaping Africa's Economic Future. Africa's Pulse Series, 2*

3.3 Oils Influence on civil conflict

Throughout its history, Uganda has been plagued by internal conflict. Conflict has played a significant role in Uganda since independence in 1962. Up until only recently, the Lord's Resistance Army (LRA) has plagued the northern regions of the country.

Paul Collier and Anke Hoeffler (2000) concluded that "...the extent of primary commodity exports is the strongest single influence on the risk of conflict."³⁷ This controversial conclusion sparked substantial debate within the academic community.³⁸ Throughout this section, I will explore the existing literature on natural resource dependence and conflict. I then follow with a discussion on conflict risks in Uganda as identified by International Alert (2009). In this section, I argue that Ugandans are sceptical about the oil industry because oil has often been associated with civil conflict; the cases of the Biafran war in Nigeria as well as the war between South Sudan and the north provide evidence of this.

Collier and Hoeffler's conclusion has sparked heated debate amongst the academic community. However, there is growing evidence (Fearon 2005, Humphreys 2005 and Ross 2006) that suggests primary resource dependence does not result in civil conflict. Although many resource dependent states do endure some form of civil strife it has been argued, and largely accepted, that it is not the presence of the resource itself that causes conflict. Much of the literature regarding resource dependence and conflict can be grouped into two categories, greed and grievance. Collier and Hoeffler (2000, 2005) and Lujala (2005) subscribe to greed theory, while Thies (2005) Oyefusi (2004),

³⁷ Collier, P & Hoeffler, A. (1998). On Economic Causes of Civil War. *Oxford Economic Papers*, 50, 563-573

³⁸ In response to Collier and Hoeffler's findings Fearon (2003) demonstrated that their controversial conclusion was not accurate.

Humphreys (2005), and Fjelde and Hanne (2001), suggest that resource induced conflict is caused by grievance.

3.3.1 Greed

Collier and Hoeffler (1998) suggest that primary commodities provide incentives for would be rebels to oppose the state. The argument is rather basic; rebels act out of greed, either in pursuit of wealth or power, or both, and in doing so form civil movements against the state. This is not to suggest grievances do not play a roll, but that the determining variable is rebel greed. Greed theory asserts that the rents from natural resources are so attractive to non-state actors that they risk their own security in order to pursue potential wealth. It is also important to note that resource rents provide financing for would be rebels, thus if a group is in control of a resource, they then have the capacity to finance their future operations. Ross (2001) also notes that even if a group does not have access to a resource they may be able to sell future rights, termed “booty futures” to potential states or firms. Collier and Hoeffler (2005) indicate that if oil is present than conflict has a high probability of being secessionist, such as MEND in Nigeria, the SPLA in South Sudan, and the conflict in Cabinda province, Angola. However, as will be discussed, much of the literature disagrees with Collier and Hoeffler, suggesting there are other underlying factors that motivate rebellion. In 1998 Collier and Hoeffler indicated that “...the objective of rebellion is either to capture the state or to secede from it.”³⁹ Collier and Hoeffler suggest that rebels are only interested in forming government, either through secession or taking over power, again highly controversial and not entirely accurate.

³⁹Op. Cit. Collier and Hoeffler,p. 564

3.3.2 Grievance

Grievance theory diverts largely from greed theory; it suggests that rebels are motivated due to social and or/economic factors and that while they may want to capture the state they are motivated to do so because of high grievances. James Fearon (2003) suggests that oil states are more prone to civil conflict because of weak/poor institutions. He suggests that these institutions, due largely to underfunding and limited support from the state, motivate rebels to rebel because they do not provide basic public goods. Fearon (2005) as well as Humphreys (2005) indicated that oil states are more prone to rebellion than other resource endowed states. Humphreys argues this is the case because of group grievance rather than group greed. The argument is as follows, citizens in oil wealthy states have overall high expectations (compared to non-oil wealthy states). Citizens expect better economic and living conditions due to the presence of the valuable commodity. However, as has been discussed throughout this paper, oil wealth mostly does not result in higher development or better living standards. Corrupt oil states also have a tendency to favour particular groups, and in doing so create or exacerbate already existing grievances. Groups motivated by grievance rebel because they feel they have been mistreated and neglected by the state. Fearon (2003) however dismisses grievance theory. He argues that there are grievances in all societies but only a few succumb to war, therefore grievance cannot be the sole cause. He believes state capacity is the key, strong states can crush rebels, while weak states cannot. Therefore, we could expect weak states, with highly valuable resources, and high grievances, to result in conflict.

There are a number of factors, including corruption, inefficiency, misuse, et cetera, that influence groups to mobilize. Opportunity cost for rebellion, according to

Fjelde and Hanne (2005), reduces when groups are marginalized by the state, thus they have more to gain by going to war than they do by remaining at peace.

Oil rents have the capacity to increase existing divisions. Uganda is made up of many different ethnic groups, many of which already have existing grievances with the state (see International Alert 2009). Existing grievances could be exacerbated by the presence of oil if the state does not equitably distribute or properly manage the revenue generated, cause for concern for the Ugandan government and people.

3.3.3 What is Oil's Impact

According to Fearon (2005) the only commodity that has any significant statistical impact on civil conflict is oil. He argues this based on a number of factors. First, oil states have significantly weaker institutions than non-oil states. Terry Karl (1997) suggests that oil states have little interest in developing sound institutions because stronger institutions demand higher accountability. Second, oil is highly lucrative; if rebels control territory that has oil than they already have a source of financing. Thus, the feasibility of rebellion is higher in oil states because of high, extractable rents. Third, oil states, as demonstrated earlier, have slower growth and worse development indicators (as compared to non-oil states).

In the cases of Nigeria and Sudan resistance movements used the unequal distribution of oil rents as motivating factors for rebellion. Those in south Sudan argued that the Khartoum regime did not equitably distribute oil wealth, especially since the oil is predominantly located in the southern region. These two cases demonstrate how it was not simply the presence of oil that led to conflict rather how the rents from oil were redistributed, supporting group grievance theory.

3.3.4 Oil's Potential Impact in Uganda

In 2009 International Alert published *Harnessing Oil for Peace and Development in Uganda*, one of the first and most thorough publications addressing the oil industry in the country. The document addresses potential conflict risks at many levels. Here I address the conflict risks as identified by International Alert and relate them to the literature on oil and the onset of civil conflict.

3.3.5 National Level Conflict

When the British officially left Uganda in 1962, they left a highly divided and fractionalized society. During their divide and rule era, the British openly favoured the Buganda people, one of the 46 ethnic tribes in Uganda. Once the British left, grievances amongst groups escalated. It was not until 1986, and the successful takeover by President Museveni and the NRM, that Uganda stabilized. However, despite progress made by Museveni towards a harmonized society, ethnic fractionalization still exists. Museveni has been accused of favouring his own ethnic tribe, as well as home district. Aside from central province, the western region, particularly where Museveni is from, has above average incomes and development indicators. Mbarara, where Museveni went to high school, is one of the fastest growing cities in the country and is one of the most prosperous. Museveni has also been accused of providing high-profile government jobs, including those in his cabinet, to members of his ethnic and geographic background. In 2004 a coalition of NGO's concluded that Uganda remains a highly fractionalized society, as many Ugandans indicated they have little in common, except

for the borders they live in.⁴⁰ Uganda, although peaceful, has yet to rid itself of its divide and rule history.

As noted earlier, oil leads to increased political competition. Now that Uganda has oil, many actors may mobilize to ensure that they benefit from the looming, substantial windfall. Uganda is already a fractionalized society, how oil revenues are redistributed could lead to even further fractionalization, as witnessed in Nigeria and Sudan, and could provide increasing incentives for rebellion.

International Alert suggests that national conflict may erupt across the state if oil rents one – are not distributed equally, and two - are hidden from the public.

Conflict at the national level is a threat, even without oil. Throughout Uganda's history, the nation has experienced civil strife, internal conflict and numerous coup attempts. Grievances across the country remain high, especially between the government and ethnic groups who feel they have been largely neglected. Oil has increased national expectations, due largely to the rhetoric used by Museveni who continually suggests oil will develop Uganda. However, as national expectations rise while group grievances still exist, Uganda could be headed down a tumultuous path, not unlike its immediate post-colonial period.

3.3.6 Local Level Conflict

The introduction of oil to the local economy could dramatically escalate already existing tensions between groups. It could also create new tensions, and could spark localized conflict.

International Alert (2009) notes four oil wealthy sub-regions along the Albertine Rift Valley. All four regions have varying ethnic tensions, some more escalated than

⁴⁰ Op. Cit. International Alert, p. 38

others, notably Bunyoro sub-regions. Land conflicts are also escalating in all four regions for three specific reasons. These are, one, oil exploration is forcing localized displacement, two, rights to land are being bought up by Ugandans from all across the country, traditional land rights are being largely ignored, and three, northern sub-regions are experiencing significant IDP returnee's (following the cessation of war between the LRA). As well, conflicts between ethnic groups appear to be increasing in oil rich sub-regions. Evidence of this is apparent when examining escalating tensions between the Bagungu and the Balaalo; the latter which have begun settling in what used to be considered the formers territory. Land conflicts have a real potential to escalate into group grievances because land tenure is shifting dramatically, from communal to formal lease holdings. Those unaware of the transition or unable of how to acquire a lease holding are witnessing their lands decline. This concern is further complicated by high population growth rates, and increasing land scarcity. As groups posit themselves to reap the benefits from oil, they may contribute to already increasing tensions.

3.3.7 International Conflict

The oil reserves found in the Albertine Rift Valley straddle the porous borders between Uganda and the DRC. To date, much of the oil exploration in the rift valley has occurred in Uganda. However, exploration is beginning on the DRC side of the lake, even though tensions in the region amongst groups remain high.

In the 1990's the Ugandan military routinely intervened in conflicts in the eastern DRC. Uganda has also been accused of supporting some of the most brutal militias in the eastern DRC throughout this period. The Lord's Resistance Army has also moved its operations from Northern Uganda, where the government was able to militarily defeat them, to the Eastern and North Eastern DRC. Conflict between the two nations could

erupt if there is no sharing agreement in place by the time large scale extraction begins. If Uganda proceeds to extract oil from the shared reserves without consent or agreement from the DRC, tensions could escalate. As well, International Alert reports that localized conflict between Congolese and Ugandans could rise due to potential displacement, and increased border traffic. The Lake Albert region has largely relied on small-scale fishing and micro-agriculture. The introduction of the highly lucrative resource could motivate rebel factions, notably on the DRC side, to seek to control territory, escalating an already fragile situation. While it is highly unlikely that Uganda and the DRC will go to war over the resource, especially since relations have improved over the past decade, it is very possible that tensions between Congolese and Ugandans could escalate, and that rebel factions in the DRC could increase their activity in the region.

As oil begins to play an increasingly important role in Uganda, the potential for resource-induced conflict escalates. International Alert describes three potential levels of conflict risk, national, local and international, all of which can occur if the Ugandan government does not properly manage the resource. Conflict could be sparked by resource induced economic decline, by a weakening of state institutions, by exacerbating already existing divisions, or by creating new ones, or by a variation of factors. The potential for resource-induced conflict should be taken seriously, as oil has either led to or has influenced the outbreak of civil conflict in many other African states.

Many Ugandans are sceptical of oil because of the country's unstable history combined with the influence oil has had in conflicts throughout the region, notably the conflict in Southern Sudan⁴¹. Oil has often been associated with civil conflict; whether or not the commodity caused the conflict is not as important as existing perceptions.

⁴¹ Due to proximity.

Ugandans are sceptical of oil because of the role the commodity has played in other African civil conflicts.

3.4 Section conclusion

Throughout this section, I have reviewed three of the key themes of the resource curse literature. I have examined how oil dependence influences economics, how oil dependence influences the quality of the state, and how it influences the potential for civil conflict. Each section compared what the academic literature indicates, and followed this with a discussion on Uganda. I argued that although the introduction of oil into the economy could provide many challenges to the state, Uganda has the unique opportunity to prosper from the resource. I argued this based on two key premises, one - Uganda, under the direction of President Museveni, has made significant progress since coming to office, righting one of Africa's post-independent catastrophes; two – Uganda is in a unique position to learn from the mistakes made by other African oil states. However, Ugandans remain cautious about oil because of how the commodity has influenced other nations. Oil is generally seen as a hindrance, rather than a help to development. Yet if Uganda can transfer the success it has had in other areas to the oil industry than it may be able to promote development with its oil reserves, rather than avoid it. If Uganda is able to combat corruption, is able to strengthen public institutions, is able to control the economic influences of oil, and is able to address unfolding conflict issues than Uganda's oil reserves could, as indicated by President Museveni, help promote development in the country. In the fourth and final section of this paper, I analyze the 2008 National Oil and Gas Policy.

4: THE 2008 NATIONAL OIL AND GAS POLICY

In 2008 the Government of Uganda released the *National Oil and Gas Policy for Uganda*. The GoU felt as though the old regulations, notably the *National Energy Policy 2002*, which governed oil and gas, were no longer sufficient given the developments in the Albertine Rift Valley. According to the GoU the policy was formed over a 2 year period, where the government involved stakeholders at many levels, and received input from other nations as well as academics. Throughout this section, I will assess the 2008 National Oil and Gas Policy. I argue that while a positive step in the right direction the document has much room for improvement. I begin by assessing the overall goals of the policy, and then transition to a discussion specifically on issue areas. I also build on the work of Bainomugish, et al. (2006) who in 2006 reviewed the draft of the 2008 document, as well as discussed the legal and institutional frameworks regarding oil in Uganda.

The primary goal of the GoU and of the 2008 policy is “...to use the country’s oil and gas resources to contribute to early achievement of poverty eradication and create lasting value to society.”⁴² The overall goal is admirable, and is what the GoU should ultimately be focusing on. However, as presented in the literature, especially by Ross (2002), many nations have set similar goals, yet have failed to pursue them. Thus, above everything, the GoU must commit to pursuing the best policies that will assist it in achieving this goal.

⁴² Ministry of Energy and Mineral Development (2008). *National Oil and Gas Policy. The Government of Uganda*, Kampala, UG, p. viii

The goal of the 2008 policy document recognizes that revenues from the oil and gas industry are going to be substantial, and that they need to be used to foster growth in other sectors. The GoU recognizes that oil is in fact a finite resource, thus should utilize the revenues generated to strengthen and further develop non-finite industries, notably agriculture and manufacturing. The report notes, “Oil and gas...are finite. Their exploitation and utilisation shall therefore be undertaken in a manner that creates durable and sustainable social and economic capacity for the country.”⁴³ Using the revenues generated from oil to develop and support other industries is a step in the right direction, as it will provide the investment these industries need in order to become competitive in the international market. Sachs and Warner (1995) noted how governments rely too heavily on resource rents, where they should be re-investing in alternative industries.

The 2008 National Oil and Gas Policy presents 10 objectives, all of which are designed to achieve the policies primary goal. These 10 objectives explain what the government would like to achieve in detail, yet, are often unclear, unspecific, and largely rhetorical rather than substantive. For example, the second objective of the policy is “To establish and effectively manage the country’s oil and gas resource potential”. The objective is admirable yet has vague and unclear strategies and actions. The first strategy is “To put in place appropriate institutional framework for promoting and regulating petroleum exploration programs”; the subsequent action has been identified as “Enact legislation for petroleum exploration in the country”. The objective here is somewhat clear, yet the strategies and actions designed to achieve this objective remain vague, not specific and rather redundant. The same scenario unfolds when examining other objectives-strategies-actions. Objective six is “To ensure collection of the right revenues and use them to create lasting value for the entire nation.” Again, this objective

⁴³ Op. Cit. Ministry and Energy, p. 1

is admirable, yet remains vague. Examples of the strategies set out to achieve this objective are, “C) publish the revenues received from oil and gas activities regularly and, D) Ensure equity, fairness and transparency in the use of oil and gas revenues.”⁴⁴ Strategy C is unclear, as “publish revenues...regularly” does not set specific parameters. As well, the strategy appears to be more of an action. Strategy D is again, unclear, how does the government ensure equity, fairness and transparency. Examples of actions supplementing these strategies include, i) put in place a law to regulate the payment, sharing, use and management of revenues accruing from oil and, iii) participate in the Extractive Industries Transparency Initiative (EITI). These actions, which, if followed, would lead Uganda in the right direction, do not go far enough. Many questions are left unanswered; what would be the details of a law regulating payment, sharing, use and management of revenues, who would be involved in the process of creating the law, et cetera. Similarly, although joining EITI would be a step in the right direction there needs to be clear delineation on who is responsible to ensure Uganda meets the requirements to join, or what does the state need to do to qualify. EITI is a thorough and lengthy process, thus simply indicating the state should join does not go far enough.

While the objectives of the 2008 National Oil and Gas Policy do set Uganda on the right path, the subsequent strategies and actions designed to achieve these objectives remain largely vague, unclear, and do not go far enough to explain how Uganda will meet these objectives. Many times the document suggests that the government create new laws or regulatory agencies, yet does not explain what these laws should include, or how these regulators should be established. Many of the strategies include promoting, encouraging, or involving, yet do not go much further.

The sections detailing guiding principles, objectives, strategies and actions, while steps in the right direction, do not go far enough to explain how Uganda and how the

⁴⁴ Ibid.p. 26

government will address key issues presented earlier. Much of this section provides altruistic suggestions, such as be more transparent, yet stops short from explaining how to be more transparent, or how to enforce transparency.

The sixth section of the 2008 policy document addresses cross-cutting issues. This section notes how avoiding the “oil curse” or “paradox of plenty” should be a key priority of the government. The document presents a clear position, “The oil curse can and should be avoided.”⁴⁵ Section 6 addresses seven cross-cutting impacts, one - on the national economy, two - on land ownership and use, three - on physical planning, four - on fiscal and monetary policy, five - on the balance of payments, six - on national industry, and seven - on agriculture and rural activities, and fisheries. All of these sectors have been identified by the government as vulnerable given the forthcoming introduction of oil to the economy. However, the government notes in all sections how oil, more specifically, oil revenues, can assist these sectors. On the national economy, the government suggests oil revenues can assist the country in reducing overall poverty below 10% by the year 2025. Yet does not specifically note how poverty will be reduced. It is important to reflect on section 1, where I noted that the introduction of oil has, in most cases, led to increased poverty. If the government of Uganda believes oil can assist in poverty eradication than it must learn from the mistakes made by other oil states, and should establish more detailed and thorough policy as to how oil will reduce poverty.

On landownership and use, International Alert (2009) stated that oil is exacerbating already existing divisions between different ethnic groups because of the increasing value of land. The government notes how land will have to be acquired by the state and by oil companies, and notes how compensation will have to be provided, yet does not go any further on the matter. Article 244 of the Ugandan constitution raises

⁴⁵ Ibid.p. 30

further concern, as the article states “Article 244 ...vests the control of petroleum in its natural condition or upon any land or waters in Uganda [to] the government on behalf of the Republic of Uganda.”⁴⁶ This raises some concern as it suggests the resource, and subsequent land where the resource is located, is ultimately at the discretion of the state. It is not unlikely that those who chose not to sell their land could have it taken by force by the state, citing Article 244.

As noted earlier, one of the problems associated with the resource curse is the effect oil has on exchange rates, and the value of the national currency. In section 6.1.3 the government states “This policy recognizes the important relationship between fiscal and monetary policy and the country’s oil and gas extraction policies and shall promote their harmony.” While necessary if the government wishes to maintain a competitive exchange rate, this commitment is not further explored, nor is it suggested how the government will promote this harmony. This section also “...discourages the use of oil and gas resources to increase public spending in areas that do not add value to the economy.”⁴⁷ As discussed in section 2, this is an important step, yet it needs to be further explained how the government will ensure revenues are not spent in areas that do not add value.

The policy document continues, identifying four more potential impacts on the national economy, “Impact on the Balance of Payments, Impact on National Industry, Impact on Agriculture, and Impact on Fisheries”. In each section the government has identified how oil may influence these sectors, yet again provides little concrete policy for how to prevent and/or mitigate potential problems.

Section 6.2 identifies five potential social effects oil may have. These effects are identified as “impact on population distribution, impact on energy availability, impact on

⁴⁶ Ibid. 32

⁴⁷ Ibid. 32

employment opportunities, impact on the environment and impact on health”. Of these five potential social impacts I believe the impact on employment opportunities may be the most important. This is because there is a growing sentiment throughout the nation that the industry may create many new jobs and will improve national unemployment figures (Dispatch 2010). However, the government has noted in this document that oil will have little direct impact on employment. Thus, the potential problem lies where expectations supersede realistic potentials. There is certainly going to be an increase in demand from other sectors, such as construction, transportation, et cetera. However, much of the employment demand will be relatively short, such as initial road redevelopment, or the building up of infrastructure in localized communities, and will not continue throughout the lifespan of the industry. Other resource dependent economies, notably Equatorial Guinea (McShery 2006), and even Botswana (Martin 2003), have had little improvement in their employment figures because of the resource; further evidence that natural resource extraction does not necessarily improve employment figures.

Section 6 identifies how the introduction of oil may affect the national economy, how it may affect the social structure of the state, and how it may influence relations with its neighbours, notably the DRC. The section does an adequate job of identifying potential problem areas, but falls short of establishing policies to address the potential problems identified.

The seventh and last section of the National Oil and Gas Policy identifies the key actors involved, their roles, and the establishment of new, oil specific institutions. This section identifies the roles and responsibilities of 26 key actors, many of them national ministries and government agencies, as well as the National Parliament, the soon to be established National Oil Company (NATOIL) and the Petroleum Authority of Uganda. Although it is important to delineate the roles of each actor, this section of the National

Oil and Gas Policy adds further confusion and convolutes the roles of the involved actors.

As noted, over 26 actors were identified by the government as having a role to play in the industry. With 26 actors involved there is likely going to be much duplication of roles and responsibilities as well as actions carried out. This could be problematic on many levels. First, multiple actors may be given funding to perform the same or very similar roles. Second, there could be much confusion over which actor is responsible for what, and to what extent they are responsible. Simply put, where a policy is not met, or a goal unreached, actors may look towards each other and lay blame elsewhere. For example, the Ministry responsible for Finance, Planning and Economic development has the responsibility of “(i) Ensuring appropriate management of petroleum revenues” while the primary role for the Central Bank is to “(i) Manage and administer the Petroleum Fund.” Thus, if funds are mismanaged or are missing it could be difficult to identify who is responsible. This is one example of how overlap might cause confusion. By having 26 actors involved in the industry, including the creation of two new actors, the roles and responsibilities of these actors may overlap with others and thus may generate confusion as the industry evolves.

In the 2008 National Oil and Gas Policy the government identified many key issue areas. However, I have argued that the government needs to lay more concrete groundwork, and more specifics, answering important questions such as “how will transparency and accountability be ensured”, “what policies will ensure revenue is not mismanaged”, and so on. The government needs to build on some of the vague language used throughout the document, and needs to develop more thorough and more detailed specifics. In conclusion, the document is a step in the right direction, building off the 2002 National Energy Policy, yet has much room for improvement.

5: CONCLUSION

Throughout this paper, I have argued that although conventional wisdom may suggest oil will lead Uganda down a 'slippery slope' the state actually has the unique opportunity to avoid the curse. I have argued this based on Uganda's remarkable turnaround, from post-independent catastrophe to one of Africa's relative success stories.

In the second section of this paper, I explored the ongoing debate within the domestic media, analyzing all relevant oil related articles in The Daily Monitor and New Vision from October 24th, 2010 to the present. Based on this analysis I concluded that scepticism about oil exists. Yet I also noted that oil will become a more hotly contested issue as the industry develops. If President Museveni and the NRM wish to maintain power following the next election it would be prudent of them to do all that they can to prevent the resource curse.

In the third section of the paper, I began to explore why scepticism exists. I argued that Ugandans, as well as institutions such as the World Bank and International Alert, are sceptical of oil based on its impact on economics, on institutions and on civil conflict. Based on a combination of the failures of other African oil states, along with Uganda's own unique history, I argued that this scepticism is reasonable. Yet although every African oil state to date has been unable to prevent the onset of the resource curse this does not mean Uganda is destined for a similar future. I argued, due to a number of factors, such as Uganda's ability to turn the post-Idi Amin and post-Milton Obote catastrophes into success, Uganda's improving democracy, and Uganda's level of

peace not experienced since independence, that Uganda is not destined to follow the path set down by other African oil states. However, I also noted that recent corruption trends does provide some cause for concern.

I then argued that the current government policy, although a step in the right direction, has much room for improvement. The complexities, vagueness and overall lacking clarity put forward by the 2008 National Oil and Gas Policy needs to be addressed. Actors need to know their level of responsibility, and the responsibilities of others. The government also needs to explicitly follow the guiding principles it used to establish the policy document, notably being more transparent and more accountable.

Uganda is in a unique and fortunate position; it has the opportunity to learn from the mistakes made by other African oil producers, and has the knowledge available to it in how to do so. Uganda is at a crossroads; what it does with its oil reserves will have a profound impact on the future of the state and of its people. For Uganda to take full advantage of its oil reserves, and become Africa's first oil success story, it must combat corruption, become more transparent and accountable, strengthen public institutions, make decisions with public interest in mind and recognize why oil has hindered, rather than helped African states to date. Although Uganda's regional oil neighbours have largely been unable to avoid the curse, we cannot immediately write Uganda off as a lost cause. By highlighting current issue areas and objectively assessing the industry to date, this paper suggests we should not write off Uganda immediately.

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