Politics, the State and Limits of Oil-Led Development in Uganda.

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Abstract

The confirmation of commercially viable oil reserves in Uganda in 2006 raised the potential for oil-led development for the country. Uganda is yet to drill her oil, nine years later. The objective of this paper is to explain slugish trajectory by Uganda in the development of her oil reserves. The focus is on the influence of the pre-oil institutions and politics, the politics around the oil contracts and legislation, the expectations and preparations for oil production, the ruling coalitions' responses to oil and the strategies for positive oil-led development in the country. It is argued that, "oil is not a curse" and neither is the "oil curse" inevitable, as some countries have avoided its negative effects. The determinism and the pessimism about oil-led development in developing countries in much of resource curse literature is rejected and instead contend that the oil resource should be viewed as an opportunity for poor states to grow economically and establish conditions for sustained development. The nature of politics, the exercise of state power and the institutional arrangements around the oil production and revenue utilisation could be significant determinants whether a country's oil resources result in positive or negative development-outcomes. The "curse" should be seen as the prevalence of neo-patrimonial governance and its ubiquitous informality, not the possession of the oil resource in itself.

1.0 Introduction

The confirmation of commercially viable oil reserves in Uganda raised the potential of oil-led development in the country. The conventional dominant view on natural resources sees oil as a "curse" as its possession is associated with negative development outcomes. The literature seems to suggest that countries in its possession perform worse compared to those without similar endowments and perhaps they would be better off without having ever discovered oil.[1] On the contrary, an increasing number of scholars[2] argue that, "oil is not a curse" and neither is the "oil curse" inevitable, as some countries have avoided its negative effects. Proponents of oil-led development disagree with the determinism and pessimism in much of resource curse literature and instead argue that oil resource should be viewed as an opportunity for poor states to grow economically and establish conditions for development.[3]

The central contention of this study is that the oil "curse" is not due to the discovery or possession of oil in itself but essentially due to the political/institutional arrangements that develop around its exploitation and revenue use.[4] Critical is the character of the state and the associated formal institutions that hold the political elites accountable, the management and the use of the oil revenue. In particular, understanding how the state is constituted and state power is exercised, is critical for the development outcomes of oil revenue use. The stress is on the centrality of politics in the development trajectory of states.

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[1] Sachs, J.D and Warner A.M (1995), "Natural Resource Abundance and Economic Growth, NBER *Working Paper* No.5398, Ross Michael (2012), *The Oil Curse: How Petroleum Wealth Shapes the Development of Nations*, Princeton and Oxford: Princeton University Press, Soares de Oliveira (2007), *Oil and Politics in the Gulf of Guinea*, New York: Columbia University Press, Shaxson N (2007), *Poisoned Wells the Dirty Politics of African Oil*, New York: Palgrave Macmillan and Karl Terry (1997), *The Paradox of Plenty: Oil Booms and Petro-States*, Berkeley: University of California Press.

[2] Loung P.J and Erika Weinthal, (2010), *Oil is not a Curse: Ownership Structure and Institutions in Soviet Union Successor States*: Cambridge University Press, Cambridge, New York and (Bischini A, Peterson J and Roine J (2007), "Resource Curse or Not: A Question of Appropriability", *Scandinavian Journal of Economics* 109 (3).

[3] Heilbrunn John (2014), *Oil, Democracy and Development in Africa*, (New York: Cambridge University Press), p.5-9.

[4] Karl Terry (2004), "Oil-Led Development: Social, Political and Economic Consequences", *Encyclopedia of Energy*, Vol.4, p.662.

The central objective of this study is to transcend the conventional consensus that views the discovery and production of oil as a "curse" rather than a "blessing" by focusing on the underlying political structures, exercise of state power and institutional arrangements of the state.

Uganda, as new oil producer, faces the dilemma of how to avoid the presumed "resource curse" and ensure positive oil-led development outcomes. Though Uganda has a history of colonialism, authoritarianism, corruption and military rule, the focus is on pre-oil and post-oil discovery political economy, particularly how historically political power has been structured. While Uganda has been touted as a "success" story of neo-liberal reforms since the 1990s, the majority of her citizens still live in poverty. The "success" story is based on aid dependency. Politically, Uganda presents a less than successful transition to democracy. In Uganda, elections since the restoration of "multi-party" politics in 2005, are a prerogative of a semi-authoritarian presidency.[5] Institutionally, Uganda only recently completed the enacting of the third-tier of the necessary legal framework for oil production and revenue management by the passing of an amended Public Finance Act in November 2014. The government is still in the process of establishing the institutions for the governance of the oil sector such as the Petroleum Authority and National Oil Company (NOC).

This paper examines the politics and the institutions relating to Uganda's oil sector and their developmental outcomes. It is based on in-depth interviews with selected informants. The paper is organized as follows: i) The conceptual framework, ii) The pre-oil institutions and politics, iii) The politics around oil contracts and legislation, iv) The public expectations and preparation for the oil extraction, v) The responses of the political coalitions to the oil discovery, vi) Conclusion: the limits of oil-led development.

The interplay between politics and oil wealth is critical because various political and social variables mediate the relation between resource wealth and particular development-outcomes[6]. The way in which political and economic processes are structured and interact is critical in promoting or frustrating developmental processes. Given that oil wealth/rent shall accrue to the state, thus heralding the return of the centrality of the state in the development dynamics of these countries, it is critical that we examine the nature of the state – the "rentier state" variety, that is likely to emerge. Broadly, rentier state theory could illuminate the interplay between politics and oil wealth.

Conceptualizing the Rentier State and Politics.

Rentier state theory is a set of ideas about why states with considerable natural resource wealth appear to have very similar economic and political development trajectories. It is a political economy theory that seeks to explain state-society relations in states that generate a large proportion of their income from rents or externally derived, unproductively, earned payments.[7] According to Hossein Mahdavy, the pioneer of the concept derived from Middle East oil

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[5] Tripp, (2004), "The Changing Face of Authoritarianism in Africa: The Case of Uganda" *Africa Today* Vol.50, No.3.

[6] Rosser, Andrew (2006), "The Political Economy of Resource Curse: A Literature Review", IDS *Working Paper*, 268:3

[7] Matthew Gray (2011), "A Theory of "Late Rentierism" in the Arab states of the Gulf States", Centre for International and Regional Studies, Qatar, *Occasional Paper* No.7, p.1.

economies, a rentier state is defined as "a state that receives substantial amounts of rent – rentals paid by foreign individuals, concerns or governments to individual, concerns or government of a given country". The economy is dominated by rents expressed in the percentage of rents in government revenues, the rents come from abroad, accrue to the government directly and only a few are engaged in the generation of this rent (wealth), the majority being only involved in the distribution or utilization of it. [8] The distinguishing feature of the rentier thus resides in the lack or absence of a productive outlook in its behavior.

Beblawi and Luciani[9] prefer to view the "rentier state" from an economic prism, embedding their definition of a "rentier state" within a broader definition of the "rentier economy"…. "an economy substantially supported by expenditure from the state, while the state itself is supported from rent accruing from abroad, or more generally an economy in which rent plays a major role. A rentier state is then a sub-system associated with a rentier economy". Such a state becomes the main intermediary between the resource sector and the rest of the economy. The state becomes the origin of all significant economic and social development and determinant of how resources are distributed in society.

There are four conditions that may be the basis to classify a state as rentier, Beblawi[10]. These include: i) The situation of rent domination in the economy. ii) Apart from being dominant, such a state relies on substantial external rent. iii) Only a small segment of the society is involved in the creation of wealth, while the rest are engaged in the utilization and distribution of the wealth. iv) In a rentier economy, the government is the principle recipient of external rent and therefore control of rent is in the hands of the few. Thus, a rentier state is one that lives off externally generated rents rather than from the surplus production of the population.

In a rentier economy, most people are involved in receiving "allocation" from the state and spending of the wealth. This rentier practices get infused into society in general and creates a rentier mentality.[11] The rentier mentality arises because of the break in work-reward causation. For a rentier, reward becomes a windfall gain divorced from the production process. This mentality comes to dominate social consciousness of society characterized by laziness and complacency. Living off "unearned income", the population orients itself toward easy gain rather than productive labour. The system is marked by corruption, a profligate and structurally driven waste of resources.[12] The rentier practices may induce what is referred to as the "Dutch Disease" " – the inflows resulting in change in relative prices in favour of non-traded goods (services and construction) and against non-oil tradable goods (manufacturing and agriculture), leading to crowding out of non-oil tradable by non-tradable.[13]

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[8] Mahdavy (1970), "The Patterns and Problems of Economic Development in Rentier States S: The Case of Iran" in M.Cook (ed.) (1970), *Studies in the Economic History of the Middle East*, London, Oxford University Press, pp, 428-467.
[9] Hazem Beblawi, "The rentier state in the Arab World", in Hazem Beblawi and Giocomo Luciani (eds) *The Rentier State* (London: Croom Helm, 1987, pp 49-62.
[10] Ibid
[11] Ibid, p.52.
[12] Niblock, Tim and Monika Malik (2007), *The Political Economy of Saudi Arabia*, London and New York, Routledge, Taylor and Group, p.16.
[13] Di John, Jonathan (2011), "Is There Really a Resource Curse? A Critical Survey of Theory and Evidence", *Global Governance*, Vol.17, p.169

The occurrence of "Dutch Disease" is, however, context specific. In case of Middle Eastern states, where the rentier state theory is derived, industrial and agricultural production is a marginal component of rentier economies, why?: It is easier and more profitable to import than to produce. Niblock and Malik[14] observe that the usual development process is reversed due to readily available rents. Instead of the usual development progression from agriculture to industry to services, oil provokes the growth of mainly the third sector (services). Di John[15] views poor economic performance in the context of oil abundance and booms as outcomes of historically specific structural attributes and institutional arrangements, not simply to the rent windfall. The way that mineral rents are used is not prior to, but essentially they are a by-product of the political struggles and the ruling class orientation at the time they are earned.

Dependence on petroleum produces a distinctive type of setting, the petro-state, which encourages the political distribution of rents, Terry Karl[16]. Such a state is characterized by fiscal reliance on petrodollars, which expands state jurisdiction and weakens authority as other extractive capabilities wither. As a result when faced with competing pressures, state officials become habituated to relying on progressive substitution of public spending for statecraft, thereby further weakening state capacity. The petro-state espouses a particular form of politics. A pattern of politics in which oil rents are distributed to specific groups and public goods provided on a selective basis in the effort to attain political and hence economic power.[17] This leads the rentier state theory to be linked to neo-patrimonialism.

Rentier theory is linked to neo-patrimonialism in three important ways Matthew Gray[18]. First, neo-patrimonialism explains the mechanisms by which the allocation state distributes rentier wealth and manages the elite relationships that substitute for wider legitimacy or electoral mandates. Second, neo-patrimonial theory argues for a particular style of leadership where a sovereign – a mornarch or president – is at the centre of an elite web, with subordinate elites that are submissive to the leader but between which the leader encourages competition. This is actualized by the utilization of the rents that accrue to the state. Third, neo-patrimonial leader will, as necessary, foster a cult of personality and public image of strong leadership to build a massage of charisma and popularity, while usually conducting elite relations in an opaque, personal fashion that obscures and informalises the political processes. These practices can be observed in many oil states and are essential for the access to and control of the rents by the state.

Given the complexity of the development process, rentier theory confronts some limitations as outlined by Gray.[19] i) it has a tendency to make economic generalization without sufficient political context, ii) it is simplistic by explaining the development performance solely in terms of size and nature of countries' natural resource endowments, iii) the false claim that the state

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[14] Niblock Tim and Monica Malik (2007), *The Political Economy of Saudi Arabia*, London & New York, Routledge, Taylor & Group, 17.
[15] Di John, (2011), "Is There Really a Resource Curse?..." p.170
[16] Karl Terry (1997), *The Paradox of Plenty: Oil Booms and Petro-States*, Berkerly: University of California Press, p.16.
[17] Piombo Jessica (2012), "Oil Rents and Political Power in Africa", in R.E Looney (ed), *Handbook of Oil Politics* (London: Routledge), p.163
[18] Matthew Gray (2011), "A Theory of "Late Rentierism", Op Cit., p.7.
[19] Ibid pp 10-11

becomes truly autonomous from society under a rentier structure, iv) it does not explain the variation of political activism in the oil-rich states and v) has little utility in explaining the variations among rentier regimes in how efficiently or visibly oil money or other rents were handled and spent in earlier times. As Steffen Hertog notes, the rentier state debate is limited in its understanding of the internal dynamics of the Saudi Arabian state. There is need to have a closer look at how the formal and informal mechanisms interact and shape the political system.[20] Despite these shortcomings, rentierism remains most appropriate in the examination of the possibility of oil-led development.

Oil-led development refers to "an overwhelming dependence on revenues from the export (and not the internal consumption) of petroleum, as measured by the ratio of oil and gas to gross domestic product, total exports, and the contribution to central government revenues".[21] The possibility of oil-led development is premised on two crucial factors: 1) the type of pre-existing political, social and economic institutions available to manage oil wealth as it comes on stream and 2) the extent to which oil revenues subsequately transform these institutions in a rentier direction.[22] The major shortcoming of oil-led development, however, is the tendency of the state to throw money at the development dilemmas facing society instead of building state capacity and strategizing the development process.

There is the commonality that oil rents have an adverse effect on institution building. It is essential to understand the social and political characteristics of societies in resource-rich countries. The elites in such countries intentionally subvert the development of strong independent and capable bureaucratic institutions, because they threaten the use of state resources to finance the personalized networks that are critical to the survival of these rulers. State weakness in this regard is intentional for maintaining power.[23] Because access to oil revenues only comes with the control of the central state, to maintain political power, the rulers build personalized political networks and undermine state institutions as they populate them with political cronies who support the ruling elite.

The nature and character of the state is essential to realizing positive development outcomes. State practices have been variously referred to as predatory or as neo-patrimonial and developmental.[24] Predatory states may extract such large amounts of surplus and provide little in the way of "collective goods" in return. Those who control the state apparatus plunder without regard to the welfare of the citizenry. Predatory states are anchored in neo-patrimonialism – a system where rulers use state resources for personal benefit and to secure loyalty of their clients. Developmental state instead foster long-term development. They are: "states whose politics have concentrated sufficient power, autonomy and capacity at the center to shape, pursue and encourage the achievement of explicit developmental objectives, whether by establishing and

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[20] Steffen Hertog (2010), *Princes, Brokers, and Bureaucrats: Oil and the State in Saudi Arabia*, Ithaca and London: Cornell University Press, pp 1-6.
[21] Karl Terry (2004), "Oil-Led Development: Social, Political and Economic Consequences", *Encyclopedia of Energy*, Vol.4, p.661.
[22] Ibid, p.662.
[23] Piombo Jessica (2012), p.157.
[24] Evans P. (1989), "Predatory, Developmental and Other Apparatuses: Comparative Political Economy Perspective on the Third World State", *Sociological Forum*, Vol.4, No.4, pp.562-3.

promoting the conditions and direction of economic growth, or by organizing it directly, or a varying combination of both".[25] It takes the goals of long-term growth and structural change seriously, 'politically' manages the economy to ease the conflicts inevitable during the process of such change and engages in institutional adaptation and innovation to achieve those goals.[26] The dominance of any one of the above dimensions in a given state, can affect the quality of development outcomes. In case of a petro-state, the neo-patrimonial orientation is more likely than developmentalism. In general, oil in itself can do nothing to determine a country's developmental trajectory. The development trajectory is influenced by the state's leaders who manage the funds that are products of oil development for good or for worse.[27]

In summary, the theory of rentierism remains the one with most utility in explaining the political dynamics of oil states. Rentierism heralds the return of the critical role of the state in development dynamics of developing countries. The character of rent allocation/distribution by the state creates a rentier mentality which comes to dominate the society. A rentier state espouses a particular form of politics underpinned by patronage. The prevalence of patronage means that neo-patrimonialism is most likely to be more dominant in emerging oil states than developmentalism. Given the minute development of Uganda economy (agricultural and aindustrial sectors) the relatively substantial oil revenue turns Uganda into a prime candidate of a petro-rentier state.

Pre-Oil Institutions and Political Economy

The response of the political leadership of an agrarian country that discovers oil reserves is underpinned by the pre-existing conditions at the time of the discovery. These conditions determine how the leadership responds to new fiscal revenue streams and influences the developmental path taken. The legacy of earlier development efforts influences distinctive political and social development in the long-term. The decisions by the political leadership are made under circumstances directly encountered, given and transmitted from the past. History embeds behavior in petrostates. The political conditions under which oil rents become available to governments of developing states are of great relevance as the existing political structures can powerfully shape the subsequate uses of the oil revenues.[28] It is, therefore, necessary to consider conditions prior to the discovery and the decisions made by the political leadership for its extraction immediately after the discovery. The basic question to be addressed here is the pre-existing conditions and institutions that were present in Uganda at the time of their discovery of oil reserves. The pre-oil political and socio-economic conditions are bound to have influence on how oil revenues are likely to be governed and utilised.

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[25] Leftwich, Adrian (1995), "Bringing Politics Back In: Towards a Model of the Developmental State", *The Journal of Development Studies,* Vol.31, No.3, February, p.401.

[26] Chang Ha-Joon (1999), "The Economic Theory of the Developmental State", in Woo-Cummings, M (ed), *The Developmental State*, Ithaca and London: Cornell University Press, p.183.

[27] Heilbrunn, John (2014), *Oil, Democracy and Development in Africa*, (New York: Cambridge University Press), pp 16-17.

[28] Smith, Benjamin (2007), *Hard Times in the Lands of Plenty: Oil Politics in Iran and Indonensia*, New York: Cornell University Press.

Uganda's Pre-Oil Institutions

Politically, at the time of oil discovery, Uganda had embryonic democracy with competitive politics introduced only in 2006. Uganda had just emerged from a quasi-one party system, the so-called "no-party" democracy under military control. Upon seizing power in 1986, the current ruling party, the National Resistance Movement (NRM), introduced a "broadbased" government and the notion of "no-party" democracy which, in essense was one-party state. The landmark reform by the NRM regime for reconstituting the state was the enactment of the 1995 Constitution and was a departure from all the previous constitutions since independence in 1962. Many of the institutions and processes established by the 1995 Constitution were based on tenets of constitutionalism: the basic rules, incentive systems on government formation, the conditions for government to continue to rule and how they may be terminated democratically.[29] The parliament created by the new Constitution actively checked the executive, modified government bills and audited expenditures. Unusual for African governments, it even forced ministers out of cabinet. Civil society activists testified frequently before parliamentary committees often influencing pending legislation and government generally tolerated criticism from the media. In 2005, in less than ten years, the Constitution was reviewed and several of its provisions amended. The major objective of the amendment was the removal of constitutional term limits on the presidency, basically sanctioning a life presidency, thus stemming the democratization process.[30] As a result, some of the institutions created under the constitution enjoy limited trust from the citizens.

There has been pretense of multi-party democracy since 2006, marked by 5-year regular elections conducted on unlevel playing field. The major opposition parties: the Democratic Party (DP), The Uganda Peoples Congress (UPC) and Forum for Democratic Change (FDC) have been disorganized through restrictions and co-option of their members by the state party and have competed in elections that they can never win. Instead, Uganda has witnessed a re-establishment of a neo-patrimonial, personalized, semi-authoritarian, militarist state where increased corruption and patronage are integral parts of governance. Uganda boasts of a highly personalized style of governance in regard to the Presidency.[31] Due to lack of institutionalization of democratic rule as a result of the personalization of state power by the presidency, parochial interests penetrate and dominate the state practices – clientelism and patronage networks politics.

Due to limited institutionalized checks on executive power, despite existence of a parliament and a judiciary, the scope of permissible presidential behavior has widened resulting is substantial abuse of executive authority. Thus, rather than being built as a public authority with developmental capacity, the state in Uganda has become an agency of the ruling elite to advance their own private interests and concerns, particularly the consolidation of the hold on state power and for the accumulation of private wealth. In addition, donors have backed the quasi-

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[29] Stepan, A and C.Skach (1993), "Constitutional Frameworks and Democratic Consolidation: Parliamentarianism versus Presidentialism*", World Politics*, Vol.46, No.2

[30] Okuku, Juma Anthony (2005), "Beyond "Third Term" Politics: Constitutional Reform and Democratic Governance in Uganda", *East African Journal of Peace and Human Rights*, Vol.11 No.2.

[31] Barkan, Joel (2011), "Uganda: Assessing Risks to Stability" *Centre for Strategic & International Studies,* Washington, DC, June, pp 1-2.

authoritarian government in Uganda with cascades of cash with very limited scrutiny and control,[32] based partly on account of geo-strategic premises of "war against terror" but also on Uganda acting as an economic "success" showcase of neo-liberal policies.[33]

Economically, at 2006, the country was dominated by primary production led by agriculture. Uganda is endowed with fertile soils, regular rainfall and varied natural resource base: mineral deposits of copper, cobalt and newly discovered oil. The agricultural sector controlled by mainly small farmers (peasants) is the most important sector for the country's economy employing about 80% of the work force. In 1987, under pressure from IMF and the World Bank, the government implemented "market-friendly" reforms. Uganda's economy increasingly become monetised as evidenced by the share in GDP of the non-monetary sector which declined from 76% in 1990 to about 36% in 2001, signalling a return to market transactions. The GDP growth (at factor cost) was 5.4% during the fiscal year 2003/04 compared to 4.5% recorded in 2002/03. The real GDP growth increased in 2004/05 to 6.4% but again declined in 2005/06 to 5.1%. The decline is attributed to fall in agricultural output due to prolonged drought conditions and effect on industry sector due to energy crisis. Uganda at the time of oil discovery (2006) had steady GDP growth at about 8% per annum during the period 2001/2 – 2008/9. Although Uganda in these years recorded an impressive export diverstification and significant increase in export earnings, about 70 percent of her exports are primary commodities: coffee, fish and fish products, tea, gold, cotton, flowers and other horticultural products. Manufacturing contributed less than 10 % of the GDP. The other major contributor was the trading and service sector. Contributing 8.5% of Real GDP, 5% of total advertised employment and over 20% of export earnings, manufacturing sector remained relatively small. The growth of formal manufacturing faced severe strains and constraints like bad roads, lack of favourable long term financing and showed negative growth between 2004/05 and 2005/06 by 3.5%.[34] Such growth was too modest to enable attainment of many of the other development goals. Uganda's agriculture, manufacturing and export base remain fragile.

Ugandan institutions related to oil were essentially rudimentary by 2006. Petroleum exploration dates to the early 1920s with evidence derived from memoir No.IX on "Oil in Uganda" by N.Harris, J.W Pallister and J.M Brown published in 1956 and draws largely on the work of Wayland of 1925.[35] The drilling by Africa-European company between 1936 and 1956 failed to confirm the existence of oil in the current exploration area. The colonial government discontinued oil exploration on account of two factors: i) a policy that prioritized agriculture over oil, and ii)World War 11, which turned the attention to more urgent security concerns. Oil exploration in Uganda was not taken seriously until 1983/84 when a survey of minerals

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[32] Several analyses on Uganda bring out this: Tripp, A., Mari (2004), The Changing Face of Authoritarianism in Africa: The Case of Uganda, *Africa Today*, Vol.50, No.3, Spring, Mwenda, A and Tangri, R., "Patronage Politics, Donor Reforms and Regime Consolidation in Uganda", *African Affairs*, 104, 416 (2005), pp 449-469, and Mwenda A, and Tangri ,R, "Corruption and Cronyism in Uganda"s Privatization in the 1990s", *African Affairs*, 100 (2001), pp 117-133.

[33] Geo-strategically, Uganda is a blue-eyed boy of "donor" interests in the Great Lakes Region: Rwanda, DRC, Sudan and Somalia.

34 Statistical Abstract, UBOS, 2006.

[35] Kashambuzi R (2010), *The Story of Petroleum Exploration in Uganda 1984-2008: Matter of Faith*, (Entebbe: IMPRO Publications Ltd), p.2 refers to Wayland, John (1925), Petroleum in Uganda, *Nature: International Weekly Journal of Science*, 115,980, June 27.

conducted at that time indicated a possibility of the existence of hydrocarbons in the Albertine area around Lake Albert.[36] There was revival of oil exploration in the 1990s.

By 2006, the state did not have an adequate legal structure to regulate the new oil sector. The earliest oil law in Uganda, the Petroleum (Exploration and Production) Act, was assented to on 13th June 1985.[37] The Act remained a dead letter law up to 2000, as there was no petroleum exploration or production going on.[38] The legal framework being the first critical step, Uganda had to develop a legal framework to meet the needs of an oil industry, which included: the Uganda National Oil and Gas Policy, the 1999 Model Production Sharing Agreements and the 1997 Income Tax Act within the broad context of the Uganda Constitution. The crafting of the necessary legal framework and institutions for the broad governance of the oil sector has been slow and remains problematic.

The oil laws and governance structures - The Petroleum (Exploration, Development and Production) Act, 2013 and The Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act, 2013[39] have been passed. Amended Public Finance Act (2014) was passed in November 2014. It is only by December 2014 that the officials to manage the National Oil Company and Petroleum Authority were endorsed by Parliament.

The discovery of oil has happened in a particular socio-economic political context dominated by neo-patrimonial and semi-authoritarian. Oil discovery provides a potential lifeline to the regime by consolidating the patronage networks. President Museveni is counting on oil revenues to buttress his patronage networks and hold on to state power for life. Given the nature of Uganda's neo-patrimonial political system, it is realistic to assume that revenues from oil will be appropriated by the ruling elite through its patronage networks and fuel corruption.[40]

The Politics of Oil Contracts and Legislation

States have the potential to use the newly discovered oil for rapid development but this depends greatly on ensuring that the country gets its politics and the legal regimes right. This is because the origins of the so-called "resource curse" occurs at the point when the state discovers oil, engages in negotiation and signs the contracts for extraction of the resources with international oil companies (IOCs). Contractual terms between the state and the IOCs may determine how much a producing country earns from the resource. For countries which are new to oil, contract negotiation with oil companies with versed experience and employing well-skilled legal representatives, the capacity of the state and its negotiation team are critical in the advancement and protection of national and public interests in signed contracts.[41] Contracts establish rights

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[36] Bategeka L. and John M. Matovu (2011), "Oil Wealth and Potential Dutch Desease Effects in Uganda" *Economic Policy Research Centre* (EPRC), June, p.4

[37] Laws of Uganda (1985), Petroleum and Production) Act 1985 (Ch.150).

[38] Bainomugisha, A. et el (2006), "Escaping the Oil Curse and Making Poverty History: A Review of the Oil and Gas Policy and Legal framework for Uganda", ACODE *Policy Research Series*, No.20. p.23

[39] The Petroleum (Exploration, Development and Production) Act, 2013 (PEDP: 4th April) and The Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act, 2013 (PRCTMS: 26th July), The Public Finance Bill, 2012, was only enacted in November 2014.

[40] Barkan, J (2011), "Uganda: Assessing Risks to Stability"…p.2

[41] See, Radon, J (2007), "How to Negotiate an Oil Agreement" in Marcartan Humpherys et el (eds), *Escaping the Resource Curse*, New York: Columbia University Press, pp 89-91 and Radon J (2005), "The ABC of Petroleum

and obligations to avoid later disagreements. In the case of natural resources discovery, it is in the parties' interest to negotiate 'right' contract – an agreement that ensures credible and stable regime for resource extraction through balanced interests in the allocation of costs and benefits[42]. Negotiating the right contract is vital to a government's efforts to reap the benefits of its natural resources. The 'right' oil contracts must establish two key issues: how profits (rents) are divided between the government and participating companies and how costs are to be treated.[43]

Uganda has signed oil contracts, the Production Sharing Agreements (PSAs) with several oil companies. PSAs are private agreements made between one or more International Oil Companies (IOCs) and a National Oil Company (NOC) or government pursuit of legislation which rests a license or general exclusive authorization in the IOC to explore for, exploit and produce hydrocarbons. The PSA requires the IOC to conduct hydrocarbons and exploration, exploitation and production within certain acreage (Contract area) and share the resulting production among the parties in an agreed, often fluctuating ratio. The country offers the IOC a contractual right to explore in a specified area in exchange for the company's opportunity to recover its costs and possible profits. In return, the country contributes the acreage and receives a share of production. However, if the acreage is unproductive, the company assumes the risk of loss.[44]

The contractual terms between the state determine how much a producing country earns from the resource. The pre-resource production era government-policy choices create a socio-political context in which resource wealth has the potential to be developmentally nutritious or deleterious. In particular, this surfaces the critical question of the character of the state, the exercise of political/state power in the negotiation and signing of contracts with multinational oil companies. This is the basis on which Uganda's oil contracts are examined below.

Uganda Oil Contracts.

The Uganda government in 2007 made and signed PSAs, through the Minister of Energy and Mineral Development, with Heritage Oil and Gas Limited and Energy Africa, Uganda Limited (Now owned by Tullow Oil) despite the inadequancy of the legal framework. By 2012, five active production sharing agreements have been signed with five multinational corporations namely Tullow Uganda, China's National Offshore Oil Corporation (CNOOC Uganda), Total E&P Uganda Dominion Petroleum and Neptune Petroleum, but not done adequately.[45]

Effective award of contracts and licenses demands three (3) major measures: a) clear legal and regulatory framework, b) transparent and non-discretionary process for awarding contracts and licenses and, c) well-defined institutional responsibility on the mandates of government

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Contarcts: License-Concession Agreements, Joint Venture and Production-Sharing Agreements", in Svetlana T and Sciffrin A (eds), *Covering Oil: A Reporter's Guide to Energy and Development*, New York: Open Society Institute, pp 61-99.

[42] Hogan, W et el (2007), "Contracts in Natural Resources: A Primer", October 6,*www.hks.harvard.edu/fs/whogan/...Nat.../HST_Intro_101007.pdf*

[43] Radon Jenik (2005), "The ABC of Petroleum Contracts: License-Concession Agreements, Joint Ventures, and Production – Sharing Agreements" in Svetlana T., and Schiffrin A (eds), *Covering Oil: A Reporter's Guide to Energy and Development*, New York: Open Society Institute, pp 61-99.

[44]Smith, E Ernest et al (2010) *International Petroleum Transactions*, Third Edition (RockyMountain Mineral Law Foundation)P.463

[45] Kasita Ibrahim (2012), "Government discloses oil deals", *New Vision*, 28 June.

departments and their ability to coordinate with each other. The Uganda 2007 PSAs were negotiated and signed without a clear legal and regulatory framework, in non-transparent and discretionary manner. This has been the source of the taxation disputes.

The 2007 contracts were not made public by either government or the oil companies. Until November 2009, the content of the Production Sharing Agreements (PSAs) remained a closely guarded state secret. *The Platform*, an NGO based in London, obtained the contracts clandestinely and lodged them on to the internet, dubbing them, *Cursed Contracts*.[46] According to Schwarte,[47] while the laws and policies in Uganda indicate efforts to open up the decision-making process to the public influence, this is not the case in the oil production sector, which remains secretive. This is accounted for by the culture of secrecy with government bodies, weak civil society structures as well as the politics of patronage. Second, the awarding of contracts and licenses was carried through non-transparent and discretionary process by lobbying the president and his inner circle and without competitive bidding.

When *The Platform* released its report and the terms of PSAs were exposed, Tullow Oil Country Manager at the time, in reaction told the BBC: "Our PSAs are in line with oil agreements throughout the World". First, there is no one international "Model PSA", as PSAs are country specific. Second, according to the above report, Uganda's PSA represents the worst practices in a number of areas: the way the profits-split is structured according to volume of production alone, taking no account of oil price changes (a flaw both Norway and IMF have pointed out to the government), the legal right given to companies to flare gas, the complete absence of environmental penalties and fines.[48] In addition, *The Platform* offers a broad critique of several provisions of the 2007 PSAs: i) production sharing, ii) recovery costs, iii) taxation, iv) stabilization clauses, v) environment protection, vi) local content, vii) state participation and arbitration, among others.

The enaction of the necessary oil laws continued to be delayed. This prompted a group of bipartisan Parliamentarians to petition the Speaker to recall the Parliament for a special sitting to discuss the oil sector, particularly its regularization, in October 2011. This landmark petition led to the recall of parliament and in a charged debate amidst allegations of corruption by some ministers in the awarding of oil contracts, the Parliament passed several resolutions. There was unprecedented bipartisan display of nationalism and willingness to deal with corruption in the incipient oil industry.The most important resolution was one that called for a moratorium on executing oil contracts until the necessary laws had been passed by Parliament.[49] Parliament also set up an Ad Hoc Committee to investigate the corruption allegation by the three Ministers (Prime Minister, Energy and Foreign Affairs). On the basis of these resolutions, government was

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[46] Lay, T and Mika Minio-Paluello (2010), "Contracts Cursed: Uganda's Oil Agreement Place Profits before People", PLATFORM, www.carbonweb.org/Uganda.

[47] Schwarte, C (2008),

[48] Lay, Taimour (2010), "How to Clean up Uganda's Oil Mess", *The Monitor*, 16 May.

[49] The other resolutions included: 1) Government tables the oil laws within 30 days, 2) The government produces all the oil agreements it has executed with oil companies, 3)The government reviews PSAs to ensure that all disputes are resolved in Uganda's courts, 4) The government joins the Extractive Industries Transparency Initiative (EITI) framework, 5) The government desists from executing oil contracts with confidentiality clauses, 6) Government sets up a Commission of Inquiry to investigate claims that Ministers have been compromised and received bribes from some players in the oil industry, 7) The Government withholds its consent to a planned deal between Tullow Oil, Total and CNOOC and 8) Government explains the procurement of foreign lawyers.

barred from signing any new contracts with oil companies and if there were existing ones, these had to be reviewed to ensure Uganda gets a fair deal.

The resolutions were received with hostility from the Executive (President). The President as the Chairman of the ruling party, the National Resistance Movement (NRM), set up a week-long retreat of NRM Caucus. During the retreat, the President ensured the rescinding of the parliamentary resolutions and demanded the caucus to grant him powers to sign the new deals between Tullow, Total and CNOOC in total disregard of the resolutions. After the retreat, the parliamentary bipartisanism on oil collapsed. In February 2012, the President ordered the Minister of Energy to sign new PSAs and Farm-down contracts with Tullow, Total and CNOOC worth $2.9billion. As he put it: "I ordered the Minister to sign the oil Agreements".[50]

The signing of the February 2012 contracts in disregard of parliamentary resolutions and under the directive of the President before addressing the issues of the legal framework, the regulatory institutions and the omissions in 2007 PSAs, does not augur well for the appropriate governance of the oil sector in Uganda. The negotiations of 2012 PSAs, as was the case of 2007, were left to the government (President and his inner circle) and oil companies rather than being prescribed in the law. This practice is informed, more broadly, by the character of the Ugandan state and politics. The delay in the crafting of the necessary laws before the extraction of oil was not because Uganda was being methodical or strategic. Due to the limited institutionalization as a result of personalization of state power by the presidency and dominance of informal politics, the parliamentary resolutions could not be implemented. The paucity of civil society and the total control over the military enables the President to do as he pleases. There is lack of transparency as the Ugandan political system is fundamentally corrupted and based on patronage networks.[51]

The signing of the 2012 PSAs was premised on the resolution of the Heritage Oil tax dispute.[52] The character of the negotiation to resolve the tax dispute brought out the workings of the Uganda government. These were revealed by the Tullow Oil General Council, Graham Martin, at the press conference that he gave on the 14 months negotiation. Thus, as he put it: "We have learned a lot more about how the government works, how the various groups within government work and how the various departments work." Therefore, the potential investors in the country's oil industry have all learned a lot about how the Uganda government works. From the start of the negotiations to the finish, the government's treatment of the dispute signaled to the investors that the oil industry in Uganda will be governed by Presidential fiat rather than the rule of law. Throughout the process, decisions made at the Ministry level were later reversed by the President.[53] The real political decisions were made within the presidential clientelist network. The oil laws have been enacted but the PSAs (2007 and 2012) remain partially secret.[54] There are

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[50]Baguma, R., John Thawite and John Nzinjah(2012), "I ordered minister to sign oil agreement", Museveni, *New Vision*, 08 February,

[51]Barkan et el (2004), Op Cit.

[52] The Heritage Oil and Gas Ltd disputes the tax levy on its sale of its interests to Tullow Oil Ltd.

[53]Edwards, Jocelyn (2011), "Tullow Oil Deal Empty Victory for Uganda", *The Independent (Uganda),* Saturday, 26, March.

[54] The Oil laws were enacted in 2013. But the access to the 2012 PSAs remained restricted. One had to get permission from the Speaker of Parliament to access them at the parliamentary library. There was library staff supervising you as you read them to ensure that you neither photocopy them or take them out of the library. But in September, 2014, an NGO, Global Witness reviewed the 2012 PSAs under the title*: "A Good Deal Better? Uganda's Secret Oil Contracts Explained"* and uploaded them on their website: www.globalwitness.org

claims that Uganda received a better deal in the 2012 contracts and that Uganda's national interests were protected.[55]

Overall, the result of this presidentialism is that Uganda lacks a competent bureaucratic machinery that is able to implement legal-economic rules consistently.

The Public Expectations and Preparations for the Oil Production

Oil is the most strategic and essential commodity in the World at present. Its discovery ignites personal and national dreams of riches both within the countries and the prospecting companies. This has often seen the rise of unrealistic, exaggerated and misleading expectations of what oil wealth can do. The unrealistic and exaggerated image is created because of the naïve thinking that natural resources automatically lead to high financial gains.[56] Historically, public perceptions in new oil and gas exporting countries have been unrealistic about how quickly and how widely oil and gas revenues shall be spent and spread.[57] This must be taken into consideration when preparing for the production phase.

The public expectations of oil discovery can be categorized into two forms: positive and negative. Positive expectations associated with the production of oil are: massive job creation, provision of infrastructure and social amenities such as schools, hospitals, electricity, roads, housing among others. Negative expectation associates production of oil to: increased corruption, environmental damage, unbalanced development, oil dependent economy, inequitable oil and gas revenue distribution, erosion of democratic accountability and increase in social and political conflict.[58] But the negative public expectations are not doomsday scenarios. Based on historical experiences of other oil producing countries, they may lead the state to act with caution and be responsive to citizens' demands by carrying out adequate preparations.

Governments in newly emerging hydrocarbon economies must manage public expectations regarding how oil and gas revenues used within historical and political contexts of the specific country in mind. Managing expectations is about directing minds away from fanciful to feasible progress and mobilizing social energies towards the achievement of negotiated expectations. Expectations being the belief of a future of what will most likely happen;[59] it is prudent that the population is informed about both the realistic positive and negative consequences of the resource exploitation at an early stage.[60]

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[55] Global Witness (2014), *A Good Deal Better? Uganda's Secret Oil Contracts Explained*, London: Global Witness Ltd, September, 2014 and Sam Hickey et el (2015), The Political Settlement and Oil in Uganda, The University of Manchester: *ESID Working Paper* No.48, March

[56] Zehe, Tobias (2012), "Dangers of High Expectations – Expectation Management Theory and Practice", Ghana Office: Friedrich Ebert Stiftung, July, p.2

[57] Kakonge, O., John (2011), "Challenges of Managing Expectations of Newly Emerging Oil and Gas Producers of the South", *Journal of World Energy Law and Business*, Vol.4, No.2, pp 124.

[58] Attafuah, Agyeman K (2010), "Managing the Political and Social Expectations from Ghana's Oil and Gas Resources", *The Ghana Policy Journal*, Special Issue, Vol.4 December, p.112.

[59] Kakonge, J (2011) "Challenges of Managing Expectations……" p.125.

[60] Zehe, T (2012), "Dangers of High Expectations -…." P.5

Managing expectations includes establishing trust with partners, government and public, educating the local communities about the work being done, and explaining why and showing how petroleum activities will be conducted from the onset in order to minimize the creation of inaccurate or unrealistic expectations.[61] The ultimate objective of public expectations management is the promotion of realism and moderation by informing the public on the realistic timeframes within which the legitimate expectations could materialize into prosperity.[62]

Have the public expectations in Uganda taken into consideration the historical and political contexts of their societies? How have the state in Uganda managed the public expectations and preparations since the oil discovery?

One of the reasons why some countries suffer from "resource curse" is failure to manage the expectations, make adequate preparations, craft the necessary laws, establish and refine institutions for its governance and draw lessons from past international experience. The public expectations must be embedded in the preparations for oil extraction. How has Uganda managed the public expectations and prepared for oil extraction given their knowledge of the experience of other African states dilemmas in the oil industry?

The expectations of oil discovery in Uganda contain both the positive and the negative dimensions outlined above. They are informed by the history of the country. Given the initial background of poverty of the population, oil is seen as a magic bullet which shall improve their well-being. To the government, it shall lead to increased revenue, less dependency on aid, more investment in social services (education and health) and development of infrastructure. On the negative dimension, oil could herald the increase in political strife, chaos and given the history of corruption and weak institutions, it is unlikely to be used well. Governments in newly emerging hydrocarbon economies must manage public expectations.

The Ugandan government has attempted to manage these expectations is a number of ways. The government and the politicians, because they are inclined to the positives of oil discovery, have tendend to stress that the revenue shall be utilised mainly for infrastructural and oil-related investments. Several observations have been made on the government handling of the popular expectations.[63] The government stand is at variance with popular expectations. In the country in general and in oil-reserve areas, in particular, the expectations are for a significant share of oil proceeds, jobs, business opportunities, social services among other needs and when the oil wealth shall be realised. For the kingdom where the oil reserves are located, they expect and demand a 12.5% of the proceeds as loyalty.

The public expectations of oil discovery hardly puts into consideration the historical and the political contexts of specific states. The oil revenue shall accrue to the state. How a country is governed and spends its pre-boom earnings may have an instructive bearing on governance and

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[61] Kakonge, J (2011) "Challenges of Managing Expectations……" p.125.

[62] Attafuah, Agyeman K (2010), "Managing the Political and Social Expectations from Ghana's Oil and Gas Resources",p.115.

[63] Kiiza, J, Bategeka, L and S.Ssewanyana (2011), "Righting Resource-Curse Wrongs in Uganda: The Case of Oil Discovery and the Management of Popular expections", *Economic Policy Research Council* (EPRC), Makerere University, Research Series.

expenditure of "windfall" income from a resource such as oil. Second, politically as Karl notes,[64] petroleum produces a distinctive type of setting, the petro-state. The petro-state espouses a particular form of politics. A pattern of politics in which oil rents are distributed to specific groups and public goods provided on a selective basis in the effort to control political and hence economic power. A petro-state, if it espouses neo-patrimonial practices, would be inimmical to the developmental expectations of the public. However, if the oil and gas resources are viewed in national terms rather than as personal or regional assets, the negative expectations may be unfounded.

The Uganda government's secrecy about oil contracts has not helped to temper public expectations and allay fears of "resource curse". Second, the government has not addressed these fears adequately. It needed to have educated the population about how the oil and gas industry operates, outlining what is feasible and not feasible, stressing the corporate social responsibity of the oil companies. The government has done a poor job by failure to lay out clear and transparent government policies and priorities relating to the eventual use of the resulting revenues.

The preparation for oil production and development in Uganda has involved several measures. Uganda's immediate consideration was to create technocrats for both exploration and production, a bureaucracy and institutions to supervise the sector and manage revenue, the legal framework and the building of the infrastructure.[65] We examine the preparation at four levels: 1) legislation 2) training of skilled labour, 3) the building of infrastructure and 4) local content and environmental concerns.

First, Uganda government has carried out a fairly robust skills training programme. From the late 1980s, the state launched training programmes for graduate studies in petroleum sciences. By 2006, Uganda had a core of team of 25 professionals, 20 of them graduate degrees in oil related disciplines. It is this team that conducted the aeromagnetic and seismological studies that greatly improved Uganda's stock of knowledge, culminating in the "discovery" of commercial levels of oil in 2006.[66] In addition, there has been massive training of professionals in the various aspects of the oil industry, deployed mainly in the Ministry of Energy and Mineral Development. It is this team of experts at the ministry that have developed good data based on their acquired technical skills.[67] This is due to Uganda's building of a substantial technical knowledge base for oil development. The technocrats and the bureaucrats at the Petroleum Exploration and Production Department (PEPD) in the ministry, have been instrumental in successfully

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[64] Karl Terry (1997), *The Paradox of Plenty: Oil Booms and Petro-States*, Berkerly: University of California Press, p.16.

[65] See Kashambuzi, Reuben, (2008), *The Story of Petroleum Exploration in Uganda 1984-2008: A Matter of Faith*, Entebbe: IMPRO Publications, for the protracted process before and after the oil discovery.

[66]Kiiza, J. et al (2011), "Righting Resource Curse Wrongs in Uganda: The case of Oil Discovery and the Management of Popular Expectations", *Economic Policy Research Centre* (EPRC), Makerere University, July p.8.

[67] A senior energy ministry official reported that following the appraisals of 14 oil wells encountered during the exploration phase by the three oil companies currently involved in the country's oil sector, Uganda's estimated oil reserves inventory now stands at 6.5 billion barrels, up from 3.5 billion barrels in addition to 500 billion cubic feet of gas, *The Independent*, Thursday, 28 August 2014. The three companies (British Tullow, French Total and Chinese CNNOC), between them have explored 88 drillings and found oil in 76 of them. The appraisals were partially informed by the technical expertise at the ministry. See, Op.cit, Kashambuzi (2008), The Story of Oil Exploration, pp 45-47.

managing the exploration phase of oil development.[68] The state has established new institutions to manage the oil sector: the National Oil Company, Petroleum Directorate and Petroleum Authority, the Oil Company as manager of the operations and the Authority as regulators. The most immediate task of these institutions shall be the licencing of International Oil companies for production. Both of these institutions shall draw on the expertise that has been accumulated at the Petroluem Directorate in addition to expert consultation.[69] The relatively slow development of oil sector in Uganda has allowed sector-specific knowledge to build up.[70] Uganda, has therefore created a bureaucracy and technocracy to manage the oil sector when oil production commences. However, little appears to have been invested in the training for oil law drafting and international arbitration expertise given the continued dependence on foreign legal expertise[71]. Though the arrival of oil and its known corrupting influence may unravel the bureaucracy and the technocracy.

Second, Uganda as a new oil producer has had to build the necessary infrastructure for extraction and export of the oil: pipeline, refinery, power, railways, roads. While there are several infrastructural challenges, the debate has centred on whether to build a pipeline, a refinery or both. Unlike most oil reserves in Africa which are off-shore, the Ugandan oil reserves are mainly on-shore and landlocked which makes it both technically and financially challenging to export. The major contention between the oil companies and the government has been whether to build a refinery or not. While the government preferred a refinery, the oil companies preferred only to invest in a pipeline to export the crude oil.[72] In 2010 government commissioned a feasibility study by a Swiss engineering company, Forster Wheeler, about the commercial viability of a refinery. In a detailed report, it endorsed the refinery concept and confirmed that a refinery of 120,000 barrels per day (bpd) was viable. The international companies were less keen to the plan, preferring to export crude oil quickly and profitably. President Museveni insists that the country should add value to oil production by building a refinery. As he put it: "We should resist ferociously those parasites who want to give away this resource for "a morsel" of food as did Esau in the bible".[73]

The discovery of oil in Kenya announced on 26 March, 2012, reopened the debate on the viability of the refinery project, giving rise to the so-called "petro-rivalry" in the region. Some oil industry observers have suggested the building of a "mega refinery" for Uganda, Sudan and Kenya. While the oil companies insist that the oil could be refined at Mombasa refinery or at the yet to be built Lamu refinery in Kenya, increasingly the inland refinery concept is winning over.[74] According to some oil industry observers, the shared facility should be located inland for a number of reasons: i) to minimize the expense and difficulty of piping crude from the oil fields,

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[68] Shepherd, Ben (2013), "Oil in Uganda: International Lessons for Success", Chatham House: The Royal Institute of International Affairs, February.

[69] In interview with Bukenya Matovu, Senior Assistant Secretary, Ministry of Energy, by *Oil in Uganda*, 22 January 2013.

[70] Shepherd, Ben (2013), "Oil in Uganda: International Lessons for Success", p.9

[71] Uganda government has had to hire foreign lawyers in its tax dispute with Heritage in London for millions of dollars.

[72] Kjaer, Anne Mette (2013), "Foreign Investments in Uganda's Oil Sector: Linkages and Issues for the Local Economy", DIIS *Working Paper*, No 24, p.17

[73] *Oil in Uganda*, "Rocky Start for Refinery", May 2012, Issue No.1

[74] Young Nick, "Will Oil Fuel Cooperation or Conflict?", *Oil in Uganda*, March 2013, Issue No.4, p.7

ii) the oil that has been discovered in Uganda and Kenya is "waxy" with a "pouring point" of 40 degrees Celsius: oil of this type is difficult to transport. In order to carry the oil, a pipeline needs to be heated constantly, which is a technically complicated and expensive operation. Accordingly, it is more practical for Uganda and Kenya to establish a joint refinery inland, close to their oil fields, rather than piping crude all the way to a coastal refinery.

The new entrants in Uganda's oil industry, CNOOC and Total are agreeable to the idea of building a refinery. M.Serge Mateso, Total head of East Africa Department of Exploration and production, in an interview stated that, "We have an agreement with the government on the refinery. We have never opposed the construction of a refinery".[75] After long government (president) negotiations with the lead oil company – Tullow, it was agreed to build both a pipeline and a refinery. In June 2014, the government shortlisted bidders – SK Group of South Korea and RT Global Resources of Russia – the role of lead investor for the 60,000 bpd refinery and related infrastructure.[76] The pipeline contruction has been separately tendered.

One of the shortcoming of this approach to infrastructural investment is noted by some oil industry observers. John Page[77] notes that what is needed are investments that break the bottlenecks so that other private investments are more attractive. It would be more profitable for a pipeline or refinery investor to come in and invest in something besides resource extraction. In this case, the investment in a petro-chemical manufacturing industrial complex and related industries would alleviate the concerns of a limited market of the product mix coming out of the refinery.

Third, one of the policies outlined by the National Oil and Gas Policy (2008) is the local content policy as an objective to ensure national participation in oil and gas activities and enhance the development of Uganda's citizens with skills to participate in the oil investments. This has been legislated in The Petroleum (Exploration, Development and Production) Act No.3 of 2013. Section 125 (1) and (2) stipulate that, (1) *"The licensee, its contractors and subcontractors shall give preference to goods which are produced or available in Uganda and sevices which are rendered by Ugandan citizens and companies"* and (2) *"Where the goods and services required by the contractor or licensee are not available in Uganda, they shall be provided by a company which has entered into a joint venture with with a Ugandan company provided the Ugandan company has a share of at least forty eight percent in the joint venture".*

Local content policy refers to the development of local skills, technology transfer, job creation and promote local and national participations. This is essential for sustainable development. The above legislation is to ensure this. The oil and gas industry, despite the small numbers of jobs

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[75] Akello, Joan, "Executive Style – Vouching for Refinery and Pipeline", *Independent*, Friday, 18th October, 2013. Bashir Hangi, Communication officer of the Petroleum Exploration & Production Department, Ministry of Energy and Mineral Development, outlines the benefits of building a refinery in Uganda: i)Boost the region's refining capacity and ensure security of supply of petroleum products in the region, ii) it is a strategic investment that shall improve Uganda's balance of payments by reducing the petroleum products import bill, iii) The refinery and development of attendant industries such as petro-chemical and manufacturing industries will create jobs for Ugandans and ensure the transfer of technology in the refining and associated industries and iv) enable the rational exploitation of the resource to support sustainable development, *Oil in Uganda*, August 2013, Issue, P.15.

[76] Musoke, Ronald, "Oil and Gas Trademarks", *Independent,* Monday, 22nd December 2014.

[77] Fellow of Global Economy and Development at the Brookings Institution, interview by *Oil in Uganda*, 26th February 2013.

available, offers a large number of goods and services needed for oil exploration and production.[78]

The importance of a local content policy to the economy in terms of job creation, income generation, business expansion, and industrialization is in no doubt. But Uganda has very limited capacity to meet this stipulations. Uganda has very low skills and absorptive capacity by domestic entrepreneurs and it would be difficult to implement the 48 per cent equity. At present, the goods and services needs in oil exploration is overwhelmingly supplied by foreign firms with links to the ruling elite.

The contribution of the ruling elites is mainly to ensure that the tenders and sub-contracts are offered to the foreign firms they are associated with. This is because the oil and gas industry is of a very capital intensive nature, requiring companies with with huge investment capital or strong and supportive financial institutions. With the difficult of accessing credit by Ugandan entreprenuers, most opportunities have been taken up by the foreign companies in disregard to the legal stipulations.

For the Ugandan entreprenuers and skilled labour to benefit, it is necessary to go beyond legislative and populist posturing of the ruling elite by addressing the politics behind local content policies. The problem of local capacity is more than a technical or economic problem. Ovadia (2014)[79] in the case of Nigeria and Angola, observes that: "Local content has a dual nature: it is both a mechanism of promiting large-scale economic development and at the same time a mechanism for the elite to capture oil rent by legitimizing policies that play favourites and priviledge particular local capitalists". Therefore, the implementation of local content is informed by the interests and decisions of a given ruling elite. Politically, the real problem is that the ruling class may have little incentive to support linkage development for domestic economic entreprenuers if they are without much political importance for the survival of the ruling elites.[80]

Local content policy implemented in the context of low institutional capacity and governance deficit characterised by clientelism is bound to be ineffective. If the local content policies are ingrained in the ruling coalition's rent-seeking and the political processes, they are bound to fail. In Uganda, the draft Petroleum bill, had proposed the power to negotiate, grant and revoke licences in the oil sector (to all main contracts and sub-contracts) to be given to an independent Authority. This was changed on the president's direction and placed in the hands of the relevant minister in the Act something which is widely interpreted as an indicator that the ruling elite will decide who gets the licences and not necessarily the competence of the bidder.[81] This is aimed at reinforcing the power of the ruling elite(president) and gives the elite new opportunities for rent-seeking.

The petro-states anchored in neo-patrimonial practices, as most African oil producing states are, are incapable of engineering East Asian type of developmentalism. As Hansen Michael, et el,

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[78] Ovadia, Salah Jesse (2014), "Local Content and Natural Resource Governance: The Cases of Angola and Nigeria", *The Extractive Industries and Society*, Vol.1, p.139.
[79] Ibid, p.138.
[80] Hansen, W., Michael, et el (2014), "The Political Economy of Local Content in African Extractives: Lessons from Three African Countries (Mozambique, Tanzania, Uganda), Denmark, mimeo, p.3.
[81] Ibid, p.19

2014[82] observe, "in Africa's client-patron based forms of politics, local content offers new opportunities for patrons to allocate rents to their key financing constituencies as part of securing their survival".

Fourth, there are environmental concerns in Uganda due to the location of the oil reserves- in the Albertine Rift Valley. Tullow and its partners have no experience of drilling in national parks. Yet a bulk of Uganda's oil reserves are located in the parks, an area of magnificent biodiversity. As Peter Veit, et el[83], observe, "The Albertine Rift is the most species-rich eco-region in Africa and harbors more endemic species than any other area on the continent, including the rare mountain gorilla. Some scientists have estimated that this region is home to 39% of Africa's mammal species, 51% of its bird species, 19% of its amphibian species and 14% of its plant and reptile species. As a result, the Albertine Rift has a large number of protected areas, including fully-protected national parks and multiple-use forest reserves and wildlife sanctuaries. A number of parks are partly or wholly inside the oil blocks and many others that lie outside the blocks will likely be affected by oil development. Oil exploration activities, including drilling (and mining), are already taking place in several parks, including Murchison Falls National Park—the largest park in Uganda." There is a risk of destroying the environment if due preparations are not made and break the tourist industry which is currently Uganda second foreign exchange earner next to coffee. There has not been adequate preparations to stem the likely degradation due to the oil extraction activities. There is little indication that Uganda is preparing for the extraction of natural gas and waste management that is aimed at stemming environmental degradation.

Finally, Uganda had to craft oil laws - The Petroleum (Exploration, Development and Production) Act, 2013 and The Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act, 2013[84] have been passed.The amended Public Finance Act (2014) was passed in November 2014 and institutions for the governance of the oil sector – The Petroleum Authority and the National Oil Company (NOC). Why not a Petroleum Revenue Management Act?

In Uganda, the downside of the preparations for oil production has been that whether in training of the professionals for the oil industry, the signing of oil contracts, building of infrastructure, local content or constituting oil governance institutions such as Petroleum Authority and National Oil Company, have been informed by the patronage inclinations of the state. The management of expectations, the diligent preparation for oil extraction, local content and environmental policies are critical for achievement of positive developmental outcomes for the emerging oil states. Perhaps more critical is the politics around the oil resource.

The Political Coalitions and Social Interests in Oil

The discovery of oil alters the political economy development dynamics of the given country due to the potential massive increase in resource transfers to the state. The resources would be held by a small group of people in control of the state, the ruling elite – broadly categorized as

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[82] Hansen, W., Michael, et el (2014), p.21

[83] Peter G. Veit, et el (2011), "Avoiding the Resource Curse: Spotlight on Oil in Uganda", World Resources Institute, *Working Paper*, January, p.3

[84] The Petroleum (Exploration, Development and Production) Act, 2013 (PEDP: 4th April) and The Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act, 2013 (PRCTMS: 26th July), The Public Finance Bill, 2012, was only enacted in November 2014.

the individuals who, whether in government or not, do influence government policy orientation and directly or indirectly benefit from the policy decisions. The elite is made up of a governing segment (incumbents - the decision-makers) and a non-governing segment (clients - the merely privileged).[85] Second, politically and economically, the availability of money from oil production encourages people to organize, seek access to the oil wealth and to advance their social interests.[86] These Civil Society Organisations (CSOs) could act as countervailing forces by offering vocal and persistent challenge to the autocratic control over the oil resource usually prevalent in many oil states.

Underpinning the ruling elite and the civil society is the ruling coalition – that consists of the individuals and groups who are behind the ruling elite and help them maintain power through their support.[87] The structure of the ruling coalition is important in understanding how and why the ruling elite may or may not pursue a developmental agenda. When the main aim of the elite is to stay in power driven by self-interest, investing in broader economic transformation may not be the best strategy because it has uncertain outcomes that may take time to materialize.[88]

This part of the paper examines the political behavior of ruling elite in control of the institutions in Uganda as oil money flows to the state. The orientation of the ruling class is critical in the decisions it makes about the utilisation of the revenues from their natural resources. The choices and the behaviour of the ruling elite are informed by interactions between domestic and global interests in the oil resources.

Uganda's Ruling Political Coalition and Oil.

Uganda's ruling elite and the related ruling coalition consists of the president and his closest supporters who are cabinet ministers, ruling party officials, presidential advisers, top bureaucrats and military leaders.[89] This is the group that is going to preside over the oil revenue to be held by the state. It is, however, important to examine the development agenda of the ruling elite in the past before one determines how they may most likely respond to new oil revenue. Past practices and institutional underpinnings may shape future development outcomes. The case is that the Ugandan state (president) has broadly used and abused public resources to consolidate political power through corruption and patronage, the practices that may spill into the forthcoming oil rents.[90] The use of the oil rents for national development shall be defined by their ownership - if the oil and gas resources are viewed in national terms rather than as personal or regional assets. The president has constantly referred to Uganda's oil reserves as "my oil" as he is the one who "hunted the animal."

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[85] Soares de Oliveira, Ricardo (2007), *Oil and Politics in the Gulf of Guinea*, London: Hurst and Company, pp 124-5.
[86] Heilbrunn, R., John (2014), *Oil, Democracy, and Development in Africa*, New York: Cambridge University Press, p. 221.
[87] Whitfield, Lindsay and Ole Therkildsen (2011), "What Drives States to Support the Productive Sectors? Strategies Ruling Elites Pursue for Political Survival and their Policy Implications", *Danish Institute of International Studies* (DIIS), *Working Paper*, p.16.
[88] Kjaer, Mette A., and Mersharch Katusiimeh (2012), "Growing but not Transforming: Fragmented Ruling Coalitions in Economic Developments in Uganda", DIIS *Working Paper*, 07.
[89] Ibid, p.12
[90] In their book, Roger Tangri and Andrew M. Mwenda (2013), *The Politics of Elite Corruption in Africa: Uganda in Comparative African Perspective,*London and New York: Routledge, give a catalogue how the Ugandan elite in general and President Museveni in particular has abused public funds held by the Ugandan state.

The current ruling coalition has presided over a growing economy since the 1990s at an average rate of 7 per cent because of the government's wide-ranging governance and neo-liberal economic reforms advocated for by the International Financial Institutions (IFIs). These included privatization, civil service reforms, public revenue and expenditure reforms, decentralization and military demobilization.[91] By the 1990s, Uganda's economic performance was among the most successful in the World and lauded as one of African "success" stories (Collier, 1999).[92]

Before the anticipated oil revenue arrives and one determines how it is likely to be utilized, it is prudent to have an overview of how the state utilized public resources and revenues at its disposal in the past. The utilization of foreign aid funds, the privatization proceeds and the tax revenue in the last two decades could be instructive about the most likely use or abuse of the forthcoming oil revenue.

First, Uganda is a highly aid-dependent country and international "donors" remain influential in its political economy. Since the early 1990s, aid has been critical in promoting economic growth and recovery in Uganda. Large aid flows have expanded public resources available to government. However, in the context of few mechanisms to ensure accountability and transparency, the foreign aid resources have been used mainly for the consolidation of state power by the elite and have been a source of expanded corruption to sustain the elites' patronage networks. Foreign aid has encouraged profligate expenditure by the government. A case in point is when the massive aid and debt relief only encouraged the government to borrow more: "Immediately after Uganda's debts were forgiven under Highly Indebted Poor Countries (HIPC) initiative, the government indulged the political elite and the military. It bought a private jet for the President at a cost of US $35 million. The government also launched military adventures in the Sudan and Congo. Consequently, Uganda military spending almost doubled from US$110 million in 2000 to US $200 million by 2005"[93] Foreign aid just encouraged indulgence by Uganda government rather than use the resources on development projects.

Second, the utilization of the privatization proceeds. Uganda government undertook massive privatization of state enterprises in the 1990s. One of the cardinal objectives of privatization was the promotion of the private sector by disbanding public enterprises and removing the state from business thus curtailing opportunities for political patronage and corruption. The privatized enterprises and proceeds would be used to broaden the share of ownership by the locals thereby fulfilling the social goals. Although privatization led to recovery of the economy and encouraged FDI, the public resources as proceeds of privatization were not used to build an entrepreneurial class in Uganda. Instead, privatization introduced a new and more vicious round of corruption from which foreign nationals and state officials were the sole beneficiaries. The government sold state enterprises to its own supporters and at giveaway prices.[94] Top government officials used

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[91] See, Robinson Mark (2006), "The Political Economy of governance Reforms in Uganda", *IDS, Discussion Paper* 386, for a review of civil service, taxation and anti-corruption reforms.

[92] The concern here is not the neo-liberal economic "success" story of Uganda but to briefly examine how the state governors have, historically, utilized public resources at their disposal. This could give a general indication of how the oil revenue shall be utilized.

[93] Mwenda Andrew (2006), p.5-6

[94] Ibid

the funds realized from the sale of state enterprises to extend their patronage networks. Through presidential directives, funds were transferred to supporters of the regime. Privatization benefited individuals from "powerful" families. The purchase of public enterprises by a few 'powerful' families, politically connected, meant that resources increasingly came to be concentrated in a few hands instead of broadening the share of ownership. In general, state expenditure instead increased.

Third, the use of taxation revenues by the state. One of the successful reforms carried out by Uganda in the 1990s was the institution of a viable taxation regime by establishing Uganda Revenue Authority (URA). URA was established in 1991 as a semi-autonomous agency responsible for tax administration. Tax revenues were extremely low when the NRM government came to power in 1986, estimated at around 2% of GDP. By 2006 it was about 12% of GDP.[95] How was this expanded tax revenue utilized? Substantial amounts have been used for public administration, education, health and road networks. At the same time, the expanded revenue has encouraged government to indulge in profligate expenditure and financing of its patronage networks. Three examples: 1) The 1990s saw expanded military expenditure made worse by corruption as seen in case of junk military equipment and "ghost" soldiers. 2) Government used tax revenues to expand public administration. From 80 districts in 2006 to 117 districts at 2013, 80 ministers today, 105 presidential advisers and a parliament of 375 Members of Parliament (MPs). 3) The tax revenue has been used to support cronies of the political class. Select entrepreneurs with political connections have been given loans, allowed to evade taxes and provided with protective tariffs and preferential contracts for government projects. Those involved in the abuse of tax revenue and foreign aid funds have largely gone unpunished. Instead, donors have backed the quasi-authoritarian government in Uganda with cascades of cash with very limited scrutiny and control[96] Uganda remains a highly aid-dependent country and international "donors" remain influential in its political economy. Substantial foreign aid funds have been lost in several corruption scandals[97] and yet "donors" have not called upon the government to account.

Based on the experience of above cases, the use and abuse of public funds, one has reason to be skeptical about the future use of oil revenues. Therefore, the question is, what has been Uganda's ruling coalition response to the oil discovery? Since the discovery of oil, the ruling elite has sought to control its every aspect ranging from issuing of contracts, legislation to infrastructural development. The decisions regarding oil have increasingly narrowed to a select circle of advisers and technocrats associated with the President. Over the nearly three decades of his rule since 1986, the president has centralized and personalised the decision-making processes in the country.

First, the discovery of oil has had tremendous bearing on the politics of succession and electoral contests in Uganda than has been acknowledged. It is likely that it was central in the removal of

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[95] Robinson, Mark (2006), "The Political Economy of Governance Reforms in Uganda", IDS (Sussex), *Discussion Paper*, 386.

[96] Mwenda, A.M. and Tangri, R. (2005), "Patronage Politics, Donor Reforms and Regime Consolidation in Uganda" African Affairs, 104,416: 449-69.

[97] Among these, Grants from the Global Fund for Aids, Tuberculosis and Malaria, 2005, Global Alliance for Vaccine and Immunization (GAVI) funds, 2007, Commonwealth Heads of Government Meeting (CHOGM) funds, 2007.

term limits. It has informed the must-win acrimonious electoral contestations, both in 2006 and 2011 elections, particularly on the part of ruling party. This is because it is only the retention of state power that would enable the ruling elite to capture and monopolise the oil resources.

Second, the presidential control over oil contracts. PSAs are key documents which dictate how revenues are shared and what protections of the national interests exist. The PSAs are under presidential control and as was the case with other contracts in the past, the president personally supervises the PSAs process in close alliance with his inner-circle in government.[98] Due to the secretive control of the contracts, there arose allegations by bipartisan Members of Parliament (MPs) of corruption in the award of contracts to the main exploration company, Tullow. The MPs called for a moratorium on executing oil contracts until the necessary laws have been passed by Parliament.[99]

The President through the ruling party caucus disregarded this and signed new PSAs and the transfer of production and downstream rights from Tullow to Total and CNOOC.[100] It is the case that the lucrative contracts have been negotiated personally by the president and the revenue would serve to strengthen the top ruling elite through his patronage networks. It is important that the population understands the contractual obligations, the revenue take and how more likely it shall be spent rather than this knowledge being a preserve of the president and his inner-circle. The President has ensured that the Executive branch of government (The President) has an overwhelming control over the key aspects of oil governance. The President's personalisation of the oil resource cannot be a substitute to building of institutional capacities for sustained development.

Third, the spending priority. The president has made it clear that oil rents shall be used for oil-related infrastructural investments. There are moves to acquire loans for the construction of railways, roads, power generation, pipelines and refinery. However, some of the initial expenditure after the discovery of oil raise doubt whether this intention shall be allowed to be implemented and function as stated.

In the process of signing the 2007 agreements there were some fiscal terms involved – signature bonus. In one of the two of the Blocks agreed on, the PSA indicates a $ 300,000 signature bonus and $200,000 bonus for the other to be paid upon signing the contract. In general, host governments (poor-oil rich countries) are often attracted by signature bonuses, as they represent hard cash up-front. The Uganda government seems to have similarly been distracted by this cash. As oil contracts such as these determine revenue flows of billions of dollars, a $300,000 payment is largely irrelevant to both the company that pay it and to the government income. Uganda's $300,000 is surprisingly small bonus. The Congo (DRC) government received a $3.5

[98] Vokes Richard (2012), "The Politics of Oil in Uganda", *African Affairs*, 111/443, p.12

[99] The other resolutions included: 1) Government tables the oil laws within 30 days, 2) The government produces all the oil agreements it has executed with oil companies, 3)The government reviews PSAs to ensure that all disputes are resolved in Uganda's courts, 4) The government joins the Extractive Industries Transparency Initiative (EITI) framework, 5) The government desists from executing oil contracts with confidentiality clauses, 6) Government sets up a Commission of Inquiry to investigate claims that Ministers have been compromised and received bribes from some players in the oil industry, 7) The Government withholds its consent to a planned deal between Tullow Oil, Total and CNOOC and 8) Government explains the procurement of foreign lawyers.

[100] Petrus de Kock and Kathryn Sturman (2012), "The Power of Oil: Charting Uganda's Transition to a Petro-State", SIIA, *Research Report* 10, p.45

million bonus upon signing a PSA for Block 1 in 2008 by the same Oil Company, Tullow Oil[101]. The context notwithstanding, British Petroleum (BP) a signature bonus to the Angolan government was US$111,689,000 to secure petroleum exploration Area 31 in 1999[102]

The problem is that although Uganda government received the US$500,000 in signature bonuses for the exploration areas, the money cannot be traced to any of Uganda's public accounts. Two issues of accountability arise over this signature bonus. 1) There is no accountability regarding the bonus money already paid to the government and to which revenue stream it has been channeled through. The Ministry of Finance denies knowledge of where the signature bonus went. 2) If the government has failed to track and account for the destination of the small bonus payments, it raises questions over its intention and ability to manage the expected larger oil revenue to come for national as opposed to predatory purposes.

In 2011, the government made a costly purchase of sophisticated Russian fighter jets, tanks and other military equipment at $740 million, withdrawn from the Central Bank without prior approval from parliament and was excluded from the defense budget. Given Uganda's oil production potential and its shortage of real money to pay for the arms, there were negotiations with the Russians for the participation in developing large oil fields in Uganda, implying a possible swapping of oil for arms.[103] There is little suprise that the Russian consortium - RT Global Resources was awarded the contract the lead investor for the 60,000 bpd refinery and related infrastructure.

Fourth, preparations for oil extraction are indicative of how much of the oil rents shall be distributed. There has come to be increased reliance on the patronage networks built around the presidency. The preparations for oil production have created plenty of opportunities to appropriate rents (capital gains taxation, infrastructure-related investments like power plants and railways).[104] The lucrative security contracts around the oil installations have been allocated to a company associated with the President's brother.[105] There are claims that aspects of the oil industry have been quietly distributed to friends, family and in-laws of Museveni's inner-circle, particularly issues to do with local content and participation.[106] (Oil service companies in Uganda).

Fifth, one of the enduring legacy of the Uganda's ruling coalitions prior to the NRM regime, is the use of the military to acquire and hold on to state power. Following this legacy, Museveni's presidency is based on his control over the military and other forces of coercion. The patronage mechanisms of the regime are as well applied to the military. The oil wealth, through military expenditure, is bound to be used to buy loyalty of the army as is the case with foreign aid funds. As far as oil is concerned, the president's son commands the Special Forces group overseeing

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[101] Platform (2010), "Cursed Contracts: Uganda's Oil Agreements place Profits Before People" *Report*, London.
[102] Global Witness (2010), "Donor Engagement in Uganda's Oil and Gas Sector" *Briefing*, London, p.13
[103] Ibid, pp 48-9.
[104] In December 2014, Parliament set-up an inquiry into the railway contract for the procurement of the firm for the construction of the Standard Gauge Railway (SGR) line costing US$8.5 billion.Government has disregarded the inquiry and gone ahead to sign the contract with the Chinese (April 2015).
[105] Golooba-Mutebi, F and Sam Hickey (2013), "Investigating the Links between Political Settlements and Inclusive Development in Uganda: Towards a Research Agenda", ESID *Working Paper* No.20,P.29
[106] Kjaer, Anne Mette (2013), "Foreign Investments in Uganda's Oil Sector: Linkages and Issues for the Local Economy", DIIS *Working Paper*, No 24, p.14. and Tangri and Mwenda (2013) Op Cit, p.171

security in the oil exploration area. Thus, there is the militarization of the oil-holding regions and is in line with the army's significant holding power within the ruling coalition.[107] In addition to increased military expenditure, oil is likely to finance the high cost of administration/bureaucracy due to expanding patronage networks. This is evidenced by the prioritizing military expenditure as the purchase of fighter jets from Russia indicates.

There is optimism that the availability of money from oil production encourages people to organize, seek access to the oil wealth and to advance their social interests. Together with some MPs, civil society activists could act as countervailing forces by offering vocal and persistent challenge to the autocratic control over the oil resource. In Uganda this is evidenced by some of the ruling party Members of Parliament (MPs) in alliance with opposition MPs using oil governance inadequancies as a point at which to plan the internal ousting of their long-standing president.[108] There appears to be an emergency of a complex coalition of MPs, local administrators, and civil society groups, potentially capable of checking Uganda's current drift towards autocracy.[109] This optimism may be misplaced. The Parliamentary Forum on Oil and Gas (PFOG) which was once the active voice on oil governance has since been compromised and its most active member appointed to the cabinet (Economic Monitoring). Due to hostile outbursts from the president against the Forum, it is largely considered blacklisted. It is currently headed by a ruling party MP who sees little shortcomings in the governance of the oil sector.[110] The "Oil Debate" MPs, branded "rebels" have since been expelled from the ruling party for not following the "party line" on oil and their alliance with the opposition MPs has been broken.

The ruling elites and the oil companies. There appears to be a dubious convergence of local ruling elite, oil companies and global institutions around oil. What are the shared interests and mutual benefits? Have oil companies cultivated "partnerships" with local governments, politicians and gatekeepers (brokers)? Why did IMF country representative attend the NRM Kyakwazi Caucus meeting which was aimed at reversing the parliamentary resolutions resulting from the October 2011 Oil Debate? The Ugandan state is suspended in international networks that endow it with credibility.

The initial signs are that oil is tending to reflect and further deepen the main political *modus operandi* of the leading coalition: secretive, nepotistic, paternalistic and presidentialised rule alongside strong military involvement, Golooba and Hickey[111]. Because Uganda has not began the production and export of oil, the current activity in the oil sector is dominated by extreme rent-seeking in the processes of preparation for oil production, particularly in infrastructural development and local content policies.

Conclusion: Limits of Oil-Led Development

The dominant conventional consensus views the possession of natural resources by a developing country, particularly oil, as a curse. The major objective of this paper is to transcend that conventional consensus and its pessimistic determinism in regard to oil-led development. There

[107] Op.cit, Golooba & Hickey (2013), p.29
[108] Op Cit Petrus de Kock and Kathryn Sturman (2012), "The Power of Oil", p.49.
[109] Vokes Richard (2012), "The Politics of Oil in Uganda", p.314.
[110] Interview, Hon. Mawanda Micheal, parliament, 24th September,2014.
[111] Op.cit, Golooba & Hickey (2013), p.30

is nothing inherent among developing countries that discover oil to be prone to negative development-outcomes. Instead, I argue that oil is not a curse. The negative development outcomes of oil are a result of the political and institutional arrangements that develop around its exploitation and use of the revenue. The "curse" should be seen as the prevalence of neo-patrimonial governance and its ubiquitous informality, not the possession of the oil resource in itself.

Perhaps the foremost limitation of oil-led development is ideological – that theoretical determinism and pessimism that asserts that once a country discovers oil, the all-too-human tendencies towards greed and accumulation of power bring dictatorship and poverty. On the contrary, to poor countries the discovery of oil should be seen as an opportunity for them to grow economically and establish conditions of sustainable development. Oil-led development is possible provided there is a concrete understanding and addressing the oil "problem".

This paper defines the oil "problem" by focusing on the underlying political structures, the exercise of state power and the institutional arrangements around the production and utilisation of the oil revenue of the respective states. The pre-existing political, economic and social conditions at the time of resource discovery are critical for a country's development. The legacy of earlier development impacts on future development. History embeds behaviour in petro-states. The origin of the so-called resource curse occurs at the point at which a poor state discovers oil, negotiates and signs contracts with International Oil Companies (IOCs). The capacity of the state to negotiate the right contract is significant as it determines what it shall earn from the resource. Because the discovery of oil alters the political economy dynamics of states, the diligent preparations for oil extraction, the building of institutions and the behaviour of the ruling elite, particularly their choices and decisions, have serious implications for the oil revenue use and the development outcomes.

The limits of oil-led development in Uganda could substantially be explained by the patterns of politics, how the state is constituted and state power is exercised in the country. Uganda's main political *modus operandi* on oil matters has been: secretive, nepotistic, corrupt, personalised and presidentialised control alongside strong military involvement. The nature of politics, the exercise of state power and the institutional arrangements around oil production and revenue use, are significant determinants whether a country's oil resource results in positive or negative development-outcomes. In the final analysis, oil in itself can do nothing to determine a country's developmental trajectory. The development trajectory is influenced by the nature of the politics espoused by state's leaders who manage the funds that are products of oil development for good or for worse.