Uganda's Oil Revenue Management Framework is a Solid Start, but Not Nearly Enough

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Topics
Revenue management, **Revenue sharing**, **Sovereign wealth funds**,**State-owned enterprises**
Countries
Uganda
Stakeholders
Civil society actors, **Government officials**, **Parliaments and political parties**
Precepts
P1P2P6P7P8What are Natural Resource Charter precepts?
Social Sharing

Earlier this year, Ugandan President Yoweri Museveni signed the Public Finance Management Act (PRMA) 2015into law and created one of the world's newest sovereign wealth funds. While the law provides a solid framework for effective governance, several key elements are missing—elements that would determine whether Uganda will truly benefit from its oil windfalls.

A strong legal framework for managing petroleum revenues is fundamental for transforming oil in the ground into sustainable long-term development above it. The volatility of oil prices can make budgeting very difficult and result in wasteful spending or debt crises. In turn, this can frustrate popular expectations and lead to political instability. Legislating how petroleum revenue should be managed is a step in the right direction.

The Ugandan act includes provisions for petroleum revenue management as well as a mechanism for sharing a small portion of royalties with local governments in the oil-producing Albertine Grabben. Of note, Section 62 of the PFMA creates a sovereign wealth fund (SWF)—called the Petroleum Revenue Investment Reserve—to be held at the Bank of Uganda. The law also outlines provisions for the management and governance of the fund.

As oil revenues are only expected to contribute modestly to government revenues, and may not materialize for many years, the legitimate emphasis of the PFMA is on budget responsibility. To that effect, a strong role is carved out for parliamentarians to hold the government accountable through a Charter of Fiscal Responsibility—a contract that will bind the executive to revenue generation, public spending and debt targets. Other provisions, like the public reporting on performance and activities of the petroleum fund, will help parliament to properly oversee oil revenue management.

A SWF will not guarantee sound management of Uganda's oil revenues. NRGI's applied research of natural resource-based SWFs reveals that some funds, such as those in Chile, Norway and several US states, have indeed benefited their citizens. Funds are not only a potential source of savings—they can also mitigate budget volatility, improve public investment decisions, and help sterilize large inflows of foreign capital in order to prevent Dutch disease. Too often, though, SWFs simply act as slush funds for ruling regimes and serve as channels for patronage and corruption, as seen in Azerbaijan, Libya and Venezuela.

The Ministry of Finance, Planning and Economic Developmentmust improve the PFMA and prevent the new fund from becoming an unaccountable slush fund. NRGI's analysis reveals that the management of petroleum revenues could be bolstered by:

- Including strong fiscal rules in the Charter of Fiscal Responsibility, focusing on volatility management, overall budget sustainability and ensuring that oil revenues do not damage budget discipline, as they have in Ghana.
- Making clear provisions for national oil company financing established under the Petroleum Act 2013.
- Increasing the power and independence of the Investment Advisory Committee
- Requiring disaggregated disclosure of investments made under the Petroleum Revenue Investment Reserve.

- Publishing petroleum revenue to the detail that exists under theExtractive Industries Transparency Initiative's reporting standards.
- Increasing transparency around sub-national revenue sharing to ensure that local governments in the oil producing areas are able to plan effectively and spend wisely.

Civil society groups in Uganda under the Civil Society Coalition on Oil and Gas (CSCO) have argued that while the PFMA provides the building blocks for good governance, more needs to be done to ensure that both current and future generations of Ugandans benefit. Shem Byakagaba, the Executive Director of KHEDA, a civil society organization, pointed out that the lack of consultation around revenue sharing with local governments in the oil-producing regions may lead to a “resource curse” and social unrest in the country.

When, prior to the law's passage, I asked MP Hon. Gerald Karuhanga to comment on the PFMA, he said “If Uganda fails to come up with a good petroleum revenue management law, it will be a matter of choice and not lack of evidence on what is best for the citizens.”

While the PFMA that was passed completes the troika of laws for the management of the oil and gas sector, the current delay in oil production provides an opportunity for Uganda to further improve its regulatory framework. This would include funding provisions for the newly registered national oil company, the establishment of the Petroleum Authority, as well as the operationalizing the Charter of Fiscal Responsibility in order to ensure that petroleum revenues do not harm Uganda's economic development.

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