

Uganda determined not to let expected oil cash trickle away

Uganda says it will get the best deal from its oil and invest the profits in infrastructure and agriculture. But there are formidable obstacles on the path to prosperity

Alon Mwesigwa in Kampala

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Uganda's president, Yoweri Museveni, likes to style himself the sole protector of the east African state's oil finds. "[That's] my oil," he says, warning that he "won't allow anybody to play around with it".

"You hear people say 'Museveni should go', but go and leave oil money," said the president, 71, at a campaign rally in eastern Uganda recently. He is seeking re-election for a fifth term in February.

Museveni's obsession with the country's largely untapped oil reserves will either prove a benefit or a curse for Uganda.

The country discovered oil in 2006, around the same time as Ghana, which started production in 2010. Uganda is expected to start pumping in 2018, after delays due to court tussles over oil firm contracts and negotiations on building a refinery. The area explored so far - about 40% of the basin - has an estimated 6.5bn barrels of oil reserves; at least 2bn barrels are expected to be commercially viable.

Over the past three years, the country has enacted laws and taken time to scrutinise production sharing agreements to ensure Uganda gets the best possible deals.

Legislation on the management of petroleum revenue is a step in the right direction, according to Paul Bagabo, a Ugandan consultant with the Natural Resource Governance Institute.

Last year, the Ugandan parliament passed the Public Finance Management Act, which details how oil revenues should be used. Included is the proviso that oil money must be invested in infrastructure and to boost agriculture, rather than used for recurrent expenditure.

The act creates a petroleum fund where oil revenues will be saved. It includes provisions for the management of funds and a mechanism for sharing a small portion of royalties with local governments in the oil-producing region. It also creates a sovereign wealth fund - the petroleum revenue investment reserve - to help invest the oil money.

"The intention is good," says Bagabo.

The government has instituted the National Oil Company to manage Uganda's commercial interests within the oil and gas industry, and new rules bar international oil companies from appointing expatriates to positions that qualified Ugandans could occupy. With the sector

expected to create hundreds of thousands of jobs, Ugandans are taking courses to understand the industry's dynamics .

Global Witness, an independent advocacy group, said the production sharing agreements it had seen represented a good deal for the country.

“This is extremely positive for Uganda,” said the group, adding that the contracts could earn the state hundreds of millions of dollars in additional revenue and secure the government 80-90% of oil revenues once costs have been recovered.

The UK-based Effective States and Inclusive Development research centre said in October that there were signs Uganda might manage its oil better than Ghana, where rapid production “was not only unproductive in fiscal terms, but also took place in an unregulated environment”.

But there are signs of trouble, too.

Government oil agreements are shrouded in secrecy, keeping millions of Ugandans in the dark about events in the sector.

A group of civil society organisations - including ActionAid Uganda, Global Rights Alert, Seatini, Advocates Coalition for Development and Environment and Transparency International Uganda - has launched an online petition urging President Museveni to make the extractives sector more transparent.

They want the government to sign up to the Extractive Industries Transparency Initiative (EITI), a global accountability platform that commits oil and mining companies to publishing what they have paid governments. Governments, in turn, publish how much they have received from oil companies.

The London-based multinational Tullow Oil already publishes what it pays Uganda annually. Total E&P France and the China National Offshore Oil Corporation do not.

“Joining EITI would give the public a chance to audit some of government’s expenditure,” says Bagabo.

Winfred Ngabiirwe, the executive director of Global Rights Alert, told journalists in Kampala: “We would also like government to make a binding commitment by agreeing to take tangible steps to better involve the citizens in the development of the oil and gas sector.”

Many Ugandans are pinning their hopes for a better life on the fledgling industry, which is expected to earn the country more than \$3bn (£2.1bn) annually for close to two decades once production begins.

At least 7 million Ugandans, roughly 20% of the population, live below the poverty line.

But corruption and cronyism could jeopardise the impact oil has on the country. Almost a third of the money earmarked to improve Uganda’s roads, for instance - a top priority for the government - has been lost through corruption, according to a current inquiry.

Land is another thorny issue. In a June 2015 report, Transparency International said oil-influenced land grabs were occurring throughout Uganda’s Albertine Graben region.

More than 200 families in Rwamutonga village in the oil-rich Hoima district spent Christmas 2014 in an IDP camp after they were evicted from their land to pave way for the construction of an oil-waste treatment plant. A high court in Uganda ruled in October that they were evicted unlawfully, although they have not been reinstated on their land.

The Albertine Graben region, located in the west of the east African Rift Valley, is also home to half of all species of African birds and 39% of the continent's mammal species. It stretches to protected areas including national parks like the Murchison Falls, game reserves and wetlands housing endangered species such as mountain gorillas and the golden monkey. According to Global Witness, little is being said about how the natural environment should be protected. The area is a huge contributor to Uganda's tourism sector, which is worth more than \$1.4bn annually (about 6% of GDP).

Low global oil prices, now below \$40 per barrel, pose another problem. While some oil companies operating in Uganda have scaled down their operations and laid off workers, others have slowed the pace of investment.

The Bank of Uganda believes it unlikely the country will produce oil before 2018.

"By the time we start producing, the prices will have gone up," said Uganda's energy minister, Irene Muloni.

In 2016, the Ugandan government will award exploration licences for the remaining 60% of the basin, which could lead to the discovery of more reserves.

As the self-styled protector, Museveni won't find it easy to control his precious commodity.

This article was amended on 14 January 2016 to correct the spelling of Paul Bagabo and change a \$ to £ conversion

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