

Oil: activists fault Public Finance bill

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An oil rig in Hoima district in Western Uganda

Local and international oil and gas activists have punched holes in the recently tabled Public Finance Bill 2012 that seeks to regulate revenue management in the oil sector.

The bill, tabled in Parliament in May, is currently before the Legal and Parliamentary Affairs committee.

Shem Byakagaba, a managing consultant at Lantern Consults International, a Ugandan legal and governance consultancy firm, says that while the bill provides an important milestone in the management of oil revenues, it invests a lot of power in the minister's hands, which could easily be abused.

"Most of the provisions in the bill are good," Byakagaba said. "But just like in the upstream and mid stream bills, the bill vests a lot of powers in the minister's hands."

Lynne Turyatemba, an energy advocate, believes the bill is good because it prohibits the use of oil as collateral for loans. Most oil-rich countries tend to build up debts hoping to use their oil revenues as collateral.

The current version of the bill also has some strong transparency provisions. For instance, section 60 (b) stipulates that the minister shall publish semiannual and annual audited financial statements of the petroleum fund.

This statement should indicate, among others, the actual in- and outflows of the petroleum fund, volumes and values of the petroleum produced and the source of petroleum revenue.

This information should also be published in newspapers.

International take

Critically analyzing the bill, the Revenue Watch Institute (RWI), a global Extractive Industries watchdog, noted that just like it is in Norway, Ghana and Trinidad and Tobago, a strong legal framework for managing oil revenues is fundamental to transforming oil wealth into long-term development.

“Poor revenue management can lead to debt crises, unmet expectations and political instability. Indeed, the World Bank recently stated that managing oil revenues is one of Uganda’s overriding development challenges,” the RWI analysis reads.

The institute adds that in its current form, the bill meets basic transparency requirements, prohibits the collateralization of oil revenues and establishes a petroleum investment reserve. All these provisions are commendable milestones, the institute notes.

Provided it is well managed, RWI report explains, this one-time windfall could position Uganda to accelerate growth and reduce petroleum import costs, currently at around \$600 million annually.

Glaring gaps

But, RWI observes, some provisions lack enough parliamentary oversight.

“To ensure that oil revenues contribute to Ugandan development and that Uganda escapes the problems faced by so many other resource-rich countries, we suggest that Parliament’s oversight be strengthened.”

One consequence of revenue volatility, Revenue Watch reveals, is the wasteful spending when revenues rise and painful government spending cuts when revenues drop. In its current form, the bill does not include any provision to manage short- to medium-term revenue volatility.

Yet, most successful oil-rich countries have addressed this problem mainly by establishing a stabilization fund.

“Countries without a formal stabilization mechanism have not fared as well,” the report reads.

“A flexible rule on how much to spend and how much to save is a key public policy decision that should be specified in legislation.”

RWI also recommends that the bill separates revenues into three buckets - the Petroleum Investment Reserve (PIR), a Uganda Stabilization Fund, and an Annual Budget Funding Amount (ABFA).

A fiscal rule determines how much goes to the budget, the ABFA, and the remaining goes to the Petroleum Investment Reserve.

If there is a shortfall in the projected ABFA, the government may dip into the Uganda Stabilization Fund. If there is more revenue than was predicted for the ABFA, the surplus goes into the Uganda Stabilization Fund.

For oil to make a long-standing contribution to people’s lives, revenues need to be invested well and in sectors with strong growth potential. Some of the most successful oil-rich countries – Malaysia, Indonesia and Norway – have used their natural resource revenues for investments in education and infrastructure.

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