Oil production in Uganda

Why has it taken so long to start commercial oil production?

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Abstract

The overall objective of this thesis is to explore why it has taken so long to start commercial oil production in Uganda. The thesis is based on review of secondary literature supplemented by interviews carried out in Kampala, Uganda and Oslo Norway. This has been done by looking at both enabling and disabling factors including FDI (Foreign Direct Investment), government ability and control over natural resources and the role of Norwegian Oil for Development programme in the petroleum sector. The thesis is organized around the following research questions: (1) how has Uganda’s institutions and policies responded to the discovery of oil? (2) In what way has Uganda’s politics of patronage influenced the new petroleum sector of the country? And finally (3) what role does the Norwegian Oil for Development play in Uganda’s petroleum sector? Norway is the major donor and partner in Uganda’s petroleum sector and has presented its self as helping countries to avoid the resource curse. On this background the thesis explores the role of the Norwegian Oil for Development (OFD) programme in Uganda’s petroleum sector.

I address the scholarly literature that theorizes the question why natural resource-rich countries seem unable to make use of their resources in a productive manner. I have used a qualitative methodological approach, analysis of secondardy data, review of literaure and interviews with key stakeholders both in Norway and Uganda.

The study findings show that the reasons for the pace of Uganda’s oil and gas development include: disagreements between the international oil companies are central to the slow pace, delayed enactment of the legal framework, lack of infrastructural development in addition the activities that should lead to delivery of crude oil into the refinery have dragged. And lastly the natural of Uganda’s politics of patronage which have a key role in the country’s natural resources path and utilization of oil and gas.

The researcher’s argument and conclusion was that despite a lot of efforts made to start commercial oil production, Uganda’s oil is onshore located in national parks which comes with challenges of infrastructural development, environmental concerns as well as community compensation.

**Key words:** Uganda, Oil for Development (OFD), Resource Curse, Oil and Gas, Foreign Direct Investment
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List of abbreviations

B.O.U  Bank of Uganda
CIA  Central Intelligence Agency
CSOs  Civil Society Organizations
DFID  Department Of International Development
EA  Exploration Area
EIF  Essence et Lubrifiants de France
EITI  Extractive Industries Transparency Initiative
FDI  Foreign Direct Investment
GE  General Electric
HFO  Heavy Fuel Oil
HSE  Health Safety and Environment
IMF  International Monetary Fund
IOCs  International Oil Companies
LAPSSET  Lamu Port-South Sudan-Ethiopia Transport Corridor
LPG  Liquefied Petroleum Gas
LRA  Lord’s Resistance Army
M.O.U  Memorandum of Understanding
MEMD  Ministry Of Energy and Mineral Development
MoFPED  Ministry of Finance Planning and Economic Development
NCA  Norwegian Council for Africa
NPD  Norwegian Petroleum Directorate Department
NEMA  National Environment Management Authority
NOC  National Oil Company
NOGP  National Oil and Gas Policy
NRM  National Resistance Movement
OECD  Organization for Economic Cooperation and Development
OFD  Oil for Development PEPD
PWYP  Publish What You Pay
RAP  Resettlement Action Plan
RGI  Resource Governance Index
SEATINI  Southern and Eastern African Trade Information and Negotiations Institute
SEA  Strategic Environment Assessment
SMOGPII  Strengthening the Management of Oil and Gas Sector in Uganda, Phase II
SSA  Sub-Saharan Africa
UIA  Uganda Investment Authority
URA  Uganda Revenue Authority
WWF  World Wide Fund for Nature
1 Introduction

In 2006, commercially viable quantities of oil were discovered in Albertine Graben in western Uganda. To date 21 discoveries of oil and gas have been made containing an estimated total volume of 6.5 billion barrels of oil of which 1.4 billion barrels are estimated as recoverable and about 670 cubic feet of gas (MEMD 2015, 4). Despite more than a decade of confirmation of oil in the Albertine Graben, no commercial production has taken place. The country has become one of the slowest African states in turning oil resource into revenues. One may argue that the discovery of oil in the country would enhance the country’s economic development. The government prospects that the development of oil and gas industry will stimulate accelerated economic growth, job creation, poverty eradication and general prosperity to the people in Uganda. The oil industry is seen as contributing to Uganda’s economic growth into a middle income country by 2040. However, the first oil is anticipated to be by 2021.

1.1 Ugandan oil discovery and history of oil exploration

Efforts to find oil in Uganda started as far back as the 1920s. At that time the country did not have infrastructures nor technical know-how to start an exploration activity. It took until 2006 before the country could confirm commercial petroleum resources. Uganda’s interest in the oil exploration was disrupted by the Second World War and the post-independence political instabilities and violence in the country (Vokes, 2012). Renewed efforts of exploration started after 1986 following Museveni’s takeover of power.

Nevertheless, the country didn’t not attract much international attention to attract foreign companies due to the political unrest especially by the Lord’s Resistance Army (LRA) rebels in the northern parts of the country which lasted for almost 20 years. In addition to unavailability of quality data about the scope of oil and gas reserves (Mwesigye et al 2016, 3). The early efforts led to the identification of surface seepages of the oil and drilling of shallow wells around these seepages and one deep exploration well was drilled near Butiaba in Buliisa district in 1938. Although, these initial efforts were not successful in establishing commercial deposits of petroleum in the country,
renewed and consistent exploration efforts which commenced in the 1980s culminated into confirmation of commerciality in 2006.

The Albertine was divided into nine exploration blocks, five of which were licensed to oil companies. Within the five blocks licensed to companies, a potential of over a billion barrels was estimated; and at least 17 oil wells with significant quality and huge oil reserves had been discovered licensed. Companies to explore oil included;

*Heritage Oil and Gas Ltd* of the United Kingdom which was given a license in the Semliki and Southern Lake Albert Basin (Exploration Area 3) in 2001,

*Hardman Petroleum Africa*, a subsidiary of Hardman Resources Ltd of Australia and *Tullow Oil* of Ireland were given the mother Lake Albert Basin (Exploration Area 2),

*Tullow Oil* and *Heritage* were given a license for the exploration of the Pakwach Basin (Exploration Area 1) in 2004,

*Neptune Petroleum* (Low Tower Resources) of U.K was given a license for the exploration of the Rhino-camp Basin (Exploration Area 5) in 2005,

*Dominion Oil* of United Kingdom and *Alpha Oil* of Uganda to explore the Lakes Edward-George Basin (Exploration Area 4) (MEMD 2008, 8).

The early companies that were engaged in Uganda’s oil exploration were too small to advance to the production stage. This explains partly why it has taken so long to start commercial oil production. Some of these companies transferred their exploitation rights to bigger players. For instance Tullow oil acquired the Ugandan licenses of Energy Africa in 2004, Tullow also bought the shares of Hardman Resources and Heritage in 2007 and 2010 respectively. Thus *Tullow became the sole license holder for the exploration areas until 2012* (Mwesigye et al 2016, 3) When Tullow oil was joined by TOTAL and CNOOC, the country could proceed to the development stage. The three companies have equal shares in a joint venture for exploration and production of Uganda’s oil and Gas.

By 2017 approximately 10% of the Graben was licensed to three oil companies: *Tullow Uganda Operations Pty Limited, Total Exploration & Production Uganda B.V*, and
China National Offshore Oil Corporation (CNOOC) Uganda Limited. Each of the three companies holds 33.3% equity in four licenses. CNOOC as operator was issued a production license for the Kingfisher field. Tullow had submitted application for production licenses for over nine discoveries in Buliisa and Kaiso-Tonya areas. TOTAL had submitted three applications for production licenses for discoveries of Jobi-Rii and Ngiri.

Commercial oil in Uganda was found in 2006 but since then there has been lots of procrastination. According to one of my interviewees

“Uganda has already made a huge strategic mistake but the question is whether it still wants to continue to do so or if it can recover and start commercial production” (interview, anonymous).

1.1.1 Facts about Uganda

Uganda is a landlocked country in East Africa with a population of 41.49 million people as of World Bank 2016. It is bordered by Kenya in the East, South Sudan in the North, DRC in the West, Rwanda in the South West and Tanzania in the South East. Since it’s a landlocked country, most of its imports are obtained through the Kenyan coast after which they are transported through railway and road transport.

The political structure is made of a multi-party system with seven opposition parties. However National Resistance Movement (NRM) is the ruling party led by President Yoweri Kaguta Museveni and holds majority of the seats in parliament. Since its independence from Britain in 1962, the country has endured a military coup followed by a brutal military dictatorship under Idi Amin which ended in 1979. The country suffered disputed election in 1980 and five year of war that lead Museveni to power and who still rules up to date (CIA, 2018). Museveni has been credited with having restored relative stability and economic prosperity in the country following the years of civil war, and the despotic rule under Milton Obote (1980-85) and Idi Amin (1971-1975). In December 2017, the parliament approved the amendment of article 102(b) of the constitution that would remove the age limit of the presidency. This was done after a heated debate and fight in parliament. This sees Museveni standing to power in 2021.
The country has substantial natural resources including fertile soils, regular rainfall, small deposits of gold, copper and other mineral in addition to the recently discovered oil. Agriculture is the most important sector employing more than one-third of the workforce. Coffee accounts for the bulk of export revenue. The country has a small industrial sector that is dependent on imported inputs like oil and equipment. Overall productivity is hampered by a number of supply side constraints including underinvestment in agriculture sector that relies on rudimentary technology. Industrial growth is impeded by high costs due to poor infrastructure, low levels of private investment and depreciation of the Ugandan currency (shilling). Between 2015 and 2017, the shilling depreciated 50% against the dollar.

The budget is dominated by energy and road infrastructure spending while relying on donor support for long term drivers of growth including agriculture, health and education (CIA, 2018). Uganda’s economy has grown at a slower pace in the recent years reducing its impact on poverty. Average annual growth was 4.5% in the five years to 2015/2016 compared to the 7% achieved during the 1990s and early 2000s. The economic slowdown was mainly driven by adverse weather, unrest in south Sudan, private sector project credit constrains and poor execution of public sector projects. Amidst these, and as a reflection of unrealized fiscal stimulus, growth slowed further to 3.5% in 2016/2017 (World Bank, 2017).
Geographical location of Uganda’s oil reserves

Uganda’s oil reserves are in the Albertine Graben, along the border with the Democratic Republic of Congo (hereinafter DRC). The Albertine Graben stretches from the southwestern border with DRC up to the border with South-Sudan, covering an area of 23,000 square kilometers.
Although oil prospecting activities have been carried out in and along the entire rift, exploitation activities are currently taking place in the districts of Amuru, Buliisa and Hoima, which fall under the Acholi and the Bunyoro-Kitara (hereinafter Bunyoro) traditional kingdoms. The exploitation activities are currently taking place on what is largely the Bunyoro kingdom’s territory. For the residents in the Albertine Graben the exploration and exploitation of oil has provided employment and fast development though with a heavy cost involving displacement and eviction from the land of over
7000 people from three villages. Big employment are expected from infrastructural
development as well as the refinery and airport construction in the area. There are has
been development of community development projects such as health centers and
schools as well as construction of water sources. Oil companies have constructed houses
and compensated the evicted people through the Resettlement Action Plan (RAP).
However some residents feel unsatisfied and refused compensation as their proper was
undervalued. Other say their land had been taken by the so called big people in the
government who forged land tittles and bought community land (anonymous,
interview).

Oil for Development programme work with CSOs to empower local communities to
participate in decision making processes. For instance in 2010 a stop- gap measure to
bridge the communication gap in the oil and gas sector was initiated through monthly
radio talk shows in the Albertine Graben and participation in the civil society dialogue,
workshops and public debate carried out at Kigumba training institute (Norwegian
Petroleum Directorate Department, 2011).

1.2 Norwegian involvement and oil for
development programme

Uganda is one of the core partner countries of Norwegian Oil for Development and one
of the biggest recipient of Norwegian aid. The two countries have had a strong
cooperation of over 25 years. Norway has assisted Uganda’s petroleum sector since the
1980s and played a central advisory role in the management of petroleum resources and
the development of clean energy in the country (Norad 2016).

Norway is one of the countries that successfully has managed to govern the extraction
of their natural resources in oil and gas. Norway’s experience in managing its petroleum
sector development, thus suggested to be of great value to Uganda. In 2009 Uganda
signed a five year agreement with Norway under the Oil for Development Programme
(OFD). The OFD programme was a five year development plan for strengthening the
state petroleum administration of the upstream sector (Norad 2009). In May 28, 2015
Norway renewed its support to Uganda’s oil and gas sector by signing a new agreement
which was “Strengthening the Management of Oil and Gas Sector” worth 6.5 billion US
dollars which was expected to fund activities in the petroleum sector until 2018. As the country heads into the production stage Norway has renewed this cooperation to 2021 (Heglund, interview). Through its long term institutional cooperation agreement with partner countries, Norway shares its experience of developing a sustainable management regime.

The OFD aids Uganda in its effort to manage petroleum resources in a sustainable manner with three pillars of –

1. Resource Management,

2. Environment Management and,


The programme takes a holistic approach combining management of Resources, the Environment Safety and Revenues. OFD focuses on building a stronger, more competent and accountable public sector in order to address governance challenges.

The OFD supports many organizations working to enhance accountability such as Global Witness, World Wildlife Fund, and Thomson Reuters Foundation and collaborates with partner institutions to strengthen an informed civil society in Uganda to help keep truck of the development of oil production in Uganda. The aim is to achieve inclusive processes and information dissemination. The essence of Norwegian Oil for Development assistance which is referred as the “Norwegian model or experience” is, according to Heglund in Norad to give countries a possibility to learn about Norway’s experience in developing successful petroleum sector, the aim is not impose any model to other countries. It emphasizes “international best practice” (Heglund, interview).

As I shall argue in this thesis the OFD programme focus on strengthening of institutions and technical capacity building. The program base its ideology on the resource curse and how natural resources can be well- managed with strong institutions and good governance including transparency and accountability to avoid the resource curse. However, OFD programme focus on technical and capacity building leaving out the power and political aspects makes one question its applicability in a country like
Uganda where political landscape of power easily overrules aspects technical know-how of the technocrats.

1.3 Study objectives

Although not even a single barrel of oil has been produced yet, the discourse on oil sector development in Uganda so far has mainly focused on the concept of the resource curse. Ugandans have high expectations to what the oil resource can do to further development of the country (Shepard 2013, Vokes 2012). Further still, in the growing body of literature on Ugandan oil, no attention has been paid on why oil extraction has not started yet as well as why the petroleum sector development is so slow.

Therefore, the purpose of the study was to explore why Uganda has taken so long to start commercial oil production. There has been a lot of speculations and expectations from the people ever since oil was discovered in the country. The Ugandan population start to be impatient and shows lack of trust to the government and to the industry. Polus and Tycholiz (2016, 84) suggest that the reasons for the slow progress towards extraction is due to the fact that on discovery of oil and gas resources, there was no effective infrastructure for effective operation by oil companies.

I structured this study around three specific objectives. First objective was:

1. How has Uganda’s institutions and policies responded to the discovery of oil? Literature on the resource curse maintains that it is not oil per se that is the underlying cause of the resource curse but rather the poor quality of the state institutions managing the resource. Thus my objective was to find out how well-prepared are Uganda’s institutions in managing the resource, regarding capacity and capability of not only institutions and policies but also the technical know-how. In the same regard find out whether institutional capacity has a way it has dragged the pace of the petroleum sector in the country. Legal framework delay enactment of the laws has impacted on the pace of development of the sector as this was visible in the early stages with government cooperation with heritage and Tullow oil companies (Polus and Tycholiz 2016, 84). In addition disagreements between oil companies seem to worse the whole process where they fail to agree on certain terms and conditions within the contracts as well as in the oil related laws and policies.
2. Another object was to explore the role of the Norwegian Oil for Development programme in the Ugandan petroleum sector. My concern was, that Norway has been a major donor in the Ugandan petroleum sector since the early beginning of its oil discovery. The programme was a response to the resource curse thesis, according to the thesis oil is a source of corruption and bad governance. Norway sees it’s self as having expertise and thus stepping up its technical assistance in such cases including teaching other countries how to manage their natural resources including oil resources.

3. Lastly I wanted to explore how Uganda’s politics has influenced the development of the petroleum sector. Uganda has a semi-authoritarian system of government led by the NRM president. The vast nature of patronage network tends to create delay and ineffectiveness in policy implementation and lack of transparency in oil related governance. This nature of patronage can however, be effective in making major decisions in the interest of the nation regarding contracts with oil companies as well as mitigating potential conflicts and sustaining social cohesion. Although the extent to which the decisions are made for national interest can be questioned. Thus the objective was to find out how this nature of patronage politics has influenced on the development of the petroleum sector in the country.

Main Research question

Why has Uganda taken so long to start commercial oil production?

Specific Research questions

- How has Uganda’s institutions and policies responded to the discovery of oil?

- In what way has Uganda’s politics of patronage influenced the new petroleum sector of the country?

- What role does Norwegian Oil for Development play in Uganda’s petroleum sector?
1.4 Structure of the thesis

The thesis is presented in nine chapters. **Chapter one** gives an introduction about Ugandan oil discovery and Norwegian involvement through the Oil for Development programme into the sector. The chapter outlines the scope of the study, study objectives as well as the research questions. The chapter gives an over view of the facts about Uganda, history of oil exploration and exploitation, and the geographical location of Uganda’s oil.

**Chapter two presents** the methodological approach. It entails the research methods and design used and reason for the choice of method. Data collection methods and tools including interviews and secondary sources, time and procedures of researching informants, challenges involved and ethical considerations.

**Chapter three** is a presentation of the conceptual framework and literature review about the resource curse theory, different perspectives on the resource curse and the relationship between natural resource abundance in natural resource -rich developing countries. In this regard the chapter presents literature linking the resource curse to institutional capacity as well as issues of transparency and accountability as governance issues in the states’ capacity to control the curse. Lastly the chapter presents the oil governance in Uganda.

**Chapter four** is the presentation of foreign direct investment (FDI) Many developing economies encourage Foreign Direct Investment (FDI) in their development paradigm in their quest for economic growth and development. The chapter presents the international oil companies in Uganda’s oil and gas industry. With this support from FDI, I may argue that Uganda stands a high chance to build its petroleum industry. However many foreign investors are after profit maximization.

**Chapter five** presents the Norwegian experience through the Oil for Development programme (OFD) in Uganda. The programme structure and objectives, gives and over view of the three phases of the programme and achievements as well as the challenges and criticism of the programme. Norway shares its experience of developing a sustainable management regime. However, there are reasons to whether the success story regarded as the Norwegian model is transferable to resource rich developing countries such as Uganda. In my discussion I argue that OFD misses out an opportunity
necessary for inclusive economic growth necessary for promoting resource management. If it does not focus on democratic political pre-conditions in the country.

Chapter six is the presentation of the situation in Uganda’s oil and gas, the exploitation plans including the refinery project, it details Uganda’s oil sector regulatory framework, institutional and policy framework.

Chapter seven presents the presidential control and patronage system and its influence in Uganda’s oil and gas industry, the key actors and stakeholders in the industry and the battle over the regional pipeline. Article 244 of the constitution of Uganda invests power of natural resources in the hands of the president. The president has taken major decisions in all dimensions in the oil industry for instance giving contracts to investors to do business with, deciding pipeline route, and the refinery in addition to resolving disagreements among oil companies. Has this affected the development pace of the industry?

Chapter eight and nine are presentation of discussions and conclusions of the resource curse theory, the slow pace of oil and gas development in the country, explores the meaning of the Norwegian experience and its relevance in Uganda and if the Oil For Development programme would help Uganda avoid the resource curse. Despite its good cause when partnering with a country at totally different political, economic, democratic and social stages. This may lead to delay with overlaps between politics and regulatory disputes which can be associated with corruption.
2 Methodology approach

A researcher’s field of study and timeframe s/he has will influence the choice of methods to be used in her/his research. In this chapter I present the way the research was conducted, from choosing informants to the time of interview, data collection and analysis the research design and methods for data collection. Challenges encountered as well as ethical considerations in research.

2.1 Methodology

This was a cross-sectional qualitative study conducted in July 2016, February 2017 and December 2017-january 2018. Semi-structured interviews were used to gather information from key informants as a primary source of data (appendix 1 and 2). In order to enrich the data generated from interviews as well as enrich the arguments of the research, secondary data sources were consulted. A qualitative study with a flexible approach and case study was selected to get in-depth picture of the case.

I chose a qualitative study with a flexible approach and case study to get a wide range of Data collection and in-depth picture of the case. To understand the perceptions and opinions about my research, I chose semi-structured interviews for key informants as primary source of information as well. However, a wide range of secondary sources were used to enrich my research. In a specific research design theory and method are closely connected to each other and to the phenomena being studied. Theory is an explanation of what is going on in a situation or phenomenon (Robson 2002). I used conceptual framework and institutional approach to know what is happening and why in Uganda’s oil industry. Applying the best theoretical and methodological approach to solving a problem goes well with flexible design as data collection and analysis continues (Robson 2002, 63).

2.2 Qualitative research

A qualitative study is well suited for getting rich information about people’s perceptions about a given phenomenon. Qualitative research is analysis which is open to emergent concepts and ideas and which may produce detailed description and classification,
identity pattern of association or develop hypotheses and explanation. Qualitative data was collected through in-depth interviews and content analysis of secondary data such as text, government official documents, NORAD document reports, newspaper and online sources in relation to the topic of study. The aim of the researcher in qualitative approach is to get theoretical breadth, therefore both the researcher’s and the informant’s understanding of the issue at hand are coherently and consistently attended to. This was of great importance in my study given the fact that “oil in Uganda” is a politically sensitive topic where actors differ in their opinions and perceptions of what is “right” and “true”.

### 2.2.1 Flexible design

During my study I applied flexible research designs in ways of data collection and analysis through constant revisiting of my research questions. In a flexible design, an open and enquiring mind is needed. In addition, a researcher must be a good listener with general sensitivity and responsiveness to contradictory evidence to avoid bias. According to (Robson 2002, 167), in a flexible design the researcher is the main instrument performing analysis by herself, not by the tools or instruments. I chose flexible design to give room for repeated revisiting of all the aspects of research which included collecting and analyzing data, refining and modifying the research questions and developing theory as well as reviewing the purpose of the study as research took place.

### 2.2.2 Case study

Case study is a strategy that allows for detailed information on a contemporary phenomenon within its real-life context, supported by multiple sources of evidence (Robson 2002, 178). This approach was best suited for studying OFD and its cooperation in Uganda as well as its petroleum sector. Norway was chosen since it’s the major donor and development partner in Uganda’s petroleum sector in institutional strengthening and capacity building through OFD. According to Robson (2002, 185), every enquiry is a kind of case study thus many flexible design studies can be viewed as case studies. The approach was good for obtaining detailed information and perceptions...
needed to answer the research questions since it involved different methods and sources of data collection.

2.3 Data collection

The selection of methods to be used in research is based on what kind of information is sought, from whom and under what circumstances. As Robson (2002) puts it, data collection methods are decided at an early stage however in flexible designs the nature and number of methods used can change as data collected continues. In my research, both primary and secondary data were collected. Primary data from interviews while secondary data was collected through analysis of the existing literature.

2.3.1 Interviews

Interviews describe the life events and experiences of the respondents with respect to analysis of the significance of the portrayed phenomena. As Gill et al (2008:292) argues, Interviews are basically the correct technique to use when exploring politically sensitive topics (like oil management). I used secondary data to develop appropriate questions and get a clear insight of the topic. I developed two sets of interview questions; one was directed to the NORAD/OFD informants. This is because they were more knowledgeable about the work of OFD. Also since Norway is more concerned with strengthening institutional capacity in resource-rich countries. The second set was directed to informants in Uganda. Having the same interview guide to different respondents in Uganda helped in validity of the data as well as giving different opinions and perceptions regarding the same issue.

I used semi-structured interview with open-ended question (appendix 1 and 2), in some instances follow-up questions were used which turned the interview from a question and answer session to an interactive conversation. This created a good rapport and trust between the researcher and respondents. This also opened and widened my thinking and perception from what’s mostly in the media and gave me more clarity and explanations regarding the topic.

However, relying solely on interviews is not optimal. Even though interviews provide a good opportunity to “see the social world through the eyes of the people that they
study” (Bryman, 2012:399), it is difficult to argue the complete neutrality of the researcher (Flick, 2002:54). His or her beforehand knowledge and understanding of the issue under research will influence the types of questions asked, and consequently the type of answers received. In this regard I made use of the secondary data study the background of the topic, political situation in the country and the politics behind oil in Uganda.

2.3.2 Secondary sources

My research was a non-empirical theoretical approach which involved perusal of existing literature. Content analysis was based on secondary data from literature on government documents, policy reports, oil companies’ documents, academic journals and articles, and other sources such as newspapers, internet and press reports on the topic of interest. These gave a basis for analytical processes of answering the research questions. Secondary data also gave a better sense of issues and opinions that went along with the research topic which helped perfect the research and limit unintended bias. A wide range of written materials can produce qualitative information in understanding the philosophy of an organization or institution. However, the validity and reliability in secondary sources is difficult since the data is opinion of the writer.

2.4 Researching informants, time and access

Initially my data collection was for a period of two months between mid-June to mid-August and was to be carried out in Uganda. Unfortunately, between that period, I was only able to carry out one interview though I was able attended CSOs meetings and workshops on transparency and accountability in oil and gas in Uganda where I got some informal information. I came back to Norway and explained my failed attempt to get informants to my supervisor who connected me to one PhD student at University of Oslo who had worked with OFD programme in Norway and did her research on OFD in Ghana. With whom I had an informal meeting and discussed my research topic. She recommended and connected me to the people I could interview who included senior advisors in NORAD/OFD, PWYP Norway and Friends of the Earth Norway (these were recommended because they work with Civil Society Organizations in Uganda).
I sent emails to the potential respondents to ask and schedule interviews but could not get all the recommended people apart from OFD senior advisor. In February 2017, I conducted one interview with one senior advisor from NORAD/OFD in charge of Uganda. From my interview with the senior advisor he recommended me to the program manager SMOGP-II in MEMD who further recommended me to other informants I could interview in Uganda working in the MEMD. Getting access to the informants was by “snowball sampling” which helped me to get informants who were had to reach. Between December 2017 and January 2018, I went back in Uganda to carry out interviews to the recommended informants.

2.5 Limitations

Getting access and establishing contacts was a challenging process and experience especially in Uganda. In Norway it was easier meeting the informant once an appointment was made. However, in Uganda I scheduled interview appointments and they could get cancelled at the last minute. On several occasions, I did not get any feedback from the emails or hear from the potential informants especially during my first field work between June and August after several attempts of contacting them. There was this one informant whom I contacted about my topic and he told me “as long as it’s not sensitive, you know oil issues here…” however when it was time to meet he switched off his phone and later told me that he thought it was a video interview. Something I did not get to understand. Nevertheless, I got other ways of getting the information for instance I used some interviews from an online site “oil in Uganda”. I contacted and requested the respondents and they allowed me to use their interviews in my research where they were relevant.

Due to the difficulty in getting informants, I based most of my research and data collection on secondary data which involved review of government documents not only for preparing for interview guide but also for analysis and clarity. These included official documents from the ministry of energy and mineral development, NORAD/OFD reports, petroleum Acts of 203, petroleum policy documents and articles from the media, newspaper and interviews from an online site “oil in Uganda” (I was able to get in touch with the informants interviewed and asked permission to use their interviews). The informant from OFD, Norway was so helpful that he gave me report
from the meeting held in Kampala on 27\textsuperscript{th}/march/2017 regarding the achievements of OFD in Uganda presented by the civil society dialogue on oil and gas.

There was a challenge between what some respondents regarded as sensitive information and confidentiality in the oil industry. Oil in Uganda is a political question where the president has on many occasions regarded it as “his” oil thus maybe used for political motives. In the same way, not much is written on oil to build on. Thus the researcher was looking for information that many people luck or which is not in public domain but within the few circles in government. These are not necessarily willing to reveal so much about the industry. Hence something regarded as public knowledge is actually not known by majority of the population. People are afraid to express their views concerning the industry.

Although it’s stipulate in the national oil and gas policy about access to information, there is a close limiting information to the public, leaving scope for unnecessary secrecy and doesn’t cover financial transparency relating to the sector. Section 151, 152 and 152 of the PEDP act 2013 states that all data submitted to the minister by a license shall be kept confidential and not to be disclosed to the third party, prohibition against disclosure of information. Elite people are often busy and interviewing about sensitive issues regarding oil management and aid gives people limited time to open up which could create a weakness in the data though my familiarity with the issue made them open up in a detailed manner.

2.6 Ethical considerations

Analysis of secondary available data and review of documents was done in accordance with ethical considerations of owner’s information or permission of use of data. This was sought as per code of ethics and regulations governing data from the respective institutions and authors. As a researcher, I had the responsibility with regard how data should be treated once give access. Which meant responsibility on how to present it and what to do with it. In politically sensitive issues such as oil management, it is very vital to keep confidentiality. I always made it a point to explain to my informants that the information was confidential and was for study purposes and won’t be misused. I always asked for permission to record them for study purposes and those who wanted to remain anonymous were respected.
Another ethical consideration was avoiding plagiarism by crediting materials found in other scholars’ work as well as not forgetting my role as a researcher in presenting myself and purpose of my research for openness and honesty which is so vital in social research.

2.7 Summary of the chapter

In a nutshell, the chapter was a presentation of the methods used in data collection, it was a qualitative research involving flexible research designs and use of a case study. The methods of data collection was by primary and secondary sources of information. The chapter also presents the challenges encountered and how they were overcame plus the issues of validity and reliability as well as ethical consideration.
3 Conceptual framework

In this chapter, I present the theory of the resource curse, how various scholars theorize around the question why resources rich countries seems unable to make use of its resources in a productive manner.

3.1 Natural resources

Owing to their fundamental importance natural resources must be managed sustainably. It is argued that Governments should play a significant role in putting into place policies that ensure that these resources contribute to long term economic development to their countries. High quality institution and planning can turn the so-called curse into opportunity especially in developing countries. Natural resource wealth can be transformed into sustained growth and poverty reduction.

Oil and mineral revenues raise national savings and hence facilitate investment, capital accumulation and sustained growth with a significant spillover effect from oil sector to other non-oil sectors; especially if governments are committed to bridge the infrastructure gap and promote the non-oil economy coordinated policy formulation and execution is fundamental with sound management mechanism and institutions.

According to African Development Report (2007, 101), One major concern about Foreign Direct Investment (FDI) inflows to Africa is that the overwhelming majority of these go into natural resource exploitation. Among the top recipient countries, most of the flows to Angola, Algeria, Sudan, Nigeria, and Gabon went to oil and gas projects. Thus, an indication how natural resources can increase a country’s investment.

Natural resources both renewable and non-renewable can be an important engine for a country’s economy with a considerable fiscal revenue and foreign exchange, income and poverty reduction. The poor generally depend upon natural resources for their livelihoods. Therefore, Pro/ poor natural resource management policies such as projects that improve the capacity of the community based organizations to manage resources should be put in place. Natural resources provide safety nets for the poor especially in times of crisis, providing food in form of plants and animal wildlife and fertile soils for agriculture and fuel woods. The poor must therefore; have access to the resources and
should also be involved in resource management decision making for sustainability. Revenues from natural resources can contribute to human capital through investment in education, health and job training. Profits are used to invest in pro/poor policies and investment (African Development Report, 2007).

Some scholars such as Auty (2001) argues that natural resource abundance tends to undermine the efficiency of investment whereas a resource-poor endowment place a premium on efficient investment. Despite the fact that many of the world’s poor live in countries with significant reserves of oil, natural gas and mineral resources, these countries have continued to experience lower rates of economic growth and development than countries without these resources. In the world’s poorest countries, natural resources are often seen as the potential driver of wealth creation; unfortunately, stories of successful countries especially in SSA are hard to find. Poor governance and widespread corruption means that assets seldom reach government accounts. Global experience demonstrates that natural resource wealth in the context of poverty and weak institutions increase the probability of corruption, patronage, instability and conflict which unfortunately is the case with the current governance trend in Uganda being led by a neo-patrimonial regime (Global witness 2010, 4).

As analyzed by Jeffrey Sachs and Andrew Warner (1995, 2001), natural resources may crowd out manufacturing which is vital to economic growth. As the revenue from natural resources tends to accrue to small elites, the incentives to productively invest these monies is low. Instead revenue is more likely to be spent on high consumption lifestyles. This is because natural resource abundance tends to lead itself easily to rent seeking and corruption by governments and elites (Wick and Bulte, 2006) which have significant knock on effects throughout the economy, impeding growth and development.

The history of oil in sub Saharan African countries doesn’t often make for a happy reading with Nigeria as the most often cited example of petroleum curse with billions of pounds in oil revenues siphoned off by the corrupt leaders (Sala-I-Martin and Subramanian 2003, the guardian 2009). In Sudan and Angola, the struggle to control oil revenues contributed to lengthy civil wars while the case is not different from Sierra Leone. Many of these resource rich African countries make poor use of their wealth instead of creating prosperity, resources have too often fostered corruption, undermined
inclusive growth and incited armed conflict and damaged the environment (Remer and Greenstein 2012).

There is no strong empirical relationship between oil rents and development in African countries even though some of these countries are endowed with large and rare natural resources. The key question is no longer “how” natural resources often harm the economy but “why” some countries gain while others lose and the answer lies in cross national difference in the quality of domestic institutions (Bategeka et al 2009, 7).

3.2 The resource curse theory

Brunnschweiler (2008, 249), argues that natural resources can be a blessing for countries with good institutions and a curse to countries with bad institutions. He further noted that natural resources in particular, mineral resources have a positive association with real GDP growth especially together with sound institutions (Brunnschweiler, 2006, 15). Using a development theory of Walter Rostow (1961), natural resource endowments help developing countries to make transition from underdevelopment to development (Bimal et al 2013, 148).

However, a rich literature emerged in 1980s to challenge this notion suggesting that resource rich countries experience negative economic growth regarded as “resource curse”. This cycle of resource curse started with Sachs and Warner (1995, 49) who established a negative correlation between natural resource abundance and economic growth by statistically showing that countries with more natural resources grow slowly compared to resource poor countries whereby between 1960 and 1990 the per capita income of resource poor countries grew by 2-3 times faster than the per capita income of resource abundant countries (Sachs and Warner 1999; Auty 2001, 360). Richard Auty (1993) argued that natural resource endowments may be less beneficial to countries at low and mid income levels of development. These countries may actually perform worse than less well-endowed countries.

The resource-curse it is argued can be a result of a country’s focus on one industry such as mining and neglect of other sectors. The term resource curse (Auty 1993; Sachs & Warner 1995) is now commonly applied to describe how countries rich in natural resources that are unable to use that wealth to boost their economies. These countries
have lower economic growth and development outcomes than countries without an abundance of natural resources.

The resource curse was used to refer to both non-renewable and renewable resources (timber, coca, oil, and diamonds). However, the debate has shifted to two non-renewable resource types that seem more vital to the world economy i.e. minerals, hydrocarbons (oil & gas). Focus and analysis surrounding the oil and gas production are the problems and possibilities of managing these resources for economic growth and development in the resource rich countries and world in general. Several scholars of the resource curse shifted critical discussions on poverty and development away from earlier explanations centered on imperialism, dependency and impacts of foreign intervention to an analysis concerned with the failures and inefficiencies off national economic planning and state institutions (McNeish 2010, 3).

Avoiding the resource curse entails implementing practices of good governance to ensure that resources are used sustainably, equitably and in the public interest. According to OECD report (2011, 26), good governance in natural resource management follows many of the same principles as good governance in general. These include transparency in decision making, inclusiveness and accountability.

The report further notes that the shift from government to governance has emphasized the need to include multiple stakeholders in decision making, knowledge creation and implementation of natural resources and environment policy. However, government retains the prominent position though establishing legal frameworks and regulatory standards. Multi-stakeholder’s participation in decision making processes, management and planning often increases the legitimacy of decisions. While inter-agency cooperation across ministries and vertically across levels of government ensures coordination and nation-wide strategic approach to resource management.

### 3.2.1 Different perspectives on the resource curse

The relationship between natural resource abundance and economic performance gives greater attention to the role of political variables. With several ideas being incorporated to the theory including economists incorporating ideas from political science, ideas from neoclassical political economy and the new institutionalism into the work of the
resource curse. Political scientist bring theories of the resource curse analytical frameworks such as behaviorism, public choice theory, Marxism, institutionalism/statism, dependency and world system theory. All these put central emphasis on the political factors shaping economic outcomes (McNeish 2010, 6).

Behaviorist perspective suggest that natural resource abundance leads to various types of emotional or irrational behavior on the part of the political elites. As the resource booms, it produces a tendency to optimism leading to excessive government spending and wishful thinking among policy makers in resource-rich countries. This in turn contribute to poor policy-making and institutional deterioration. The rationalist perspective on the other hand, argue that political actors are rational-utility maximizing individuals. Natural resource abundance provides them with an opportunity to line their own pockets by engaging in rent seeking rather than irrational behavior (McNeish 2010, 6). In regard to this theory, most political elites are the main problem who take the opportunity to either directly seize the rents created from the resource booms or gain control over the right to allocate them.

Institutionalism perspective argue that natural resource abundance leads to poor economic performance not by influencing the behavior of political elites or social actors but by influencing the state’s capacity to promote economic development. This is whereby the state is geared towards the political distribution of rents rather than promotion of private investment, production and economic growth. Historic-structuralism perspective on the other hand, argue that natural resource abundance has pernicious economic effect not because of its effects on the behavior of political elites or the institutional capacity of the state but because of its effect on the relative power of different social groups or classes. Natural resource abundance tends to strengthen well-connected business groups which puts pressure on the government to pursue economic policies that serve their interests rather than the interest of the common/poor population (McNeish 2010, 7). As I will suggest the aim of Foreign Direct Investment (FDI) for a country is economic development and technological transfer, but is criticized for also enabling a space for well-connected businesses to put pressure on the government. Countries hoping for investments must offer up attractive and competitive environments through their regulatory, fiscal and licensing provisions.
3.2.2 Criticism of the resource curse theory

Most scholarly literature cite the resource curse as a result of the failures and inefficiencies of national economic planning and state institutions especially in developing countries. McNeish is critical to the fact that the curse theory blame weak institutions in developing countries instead of looking at the structural factors that make them weak. Furthermore, assessments of what good institutions are, are more often based on ideological perspectives than on scientific knowledge.

Government capacity, regulatory effectiveness and institutional quality are fundamentally interconnected with marked conditions that constrain businesses. Therefore governments play a role by reducing risks to private investors through a policy and institutional framework that support an enabling business climate (World Bank, 2017, 147). However, there is no agreement between donor institutions and national governments in the north or south on the desired institutional or political design of resource rich states. Different concepts fail to take account of the different state forms excluding fragile states and countries undergoing regime change (McNeish 2010, 19).

3.1 Institutional theory

Effective controls for resources like oil and gas supervision take in functions played by Institutions in establishing various processes which aim at sustainability. Institutions are considered as the “rules of the game” that emerge from formal laws, informal norms and practices, and organizational structures in a given setting (World Bank, 2000: p xii). Institutions are identified as a key variable in determining whether a country benefits from its natural resources or not. Institutions that curb patronage (the distribution of rents for political purposes) and rent seeking are identified as important in improving the development impact of natural resources. For petroleum aid to have significant impact on development in oil rich developing countries, it is imperative that their activities reflect policy implications and aim to build or strengthen the institutions (NORAD report 2016, 7)
According to Scott (2001) institutions are ‘social structures which have attained a high degree of resilience’. The institutional theory can be decomposed into three core thematic areas; the cultural cognitive, normative and the regulative. These three core thematic areas work in tandem and when combined with appropriate activities and resources, bring about stability and meaning to social life (Ibid 2014, 48). Institutions operate at various degrees of power ranging from the ‘world system to localized interpersonal relationships’ and are affected by both periodic and constant change they entail stability (Scott, 2001). This implies that institution have the inherent capacity to ‘control and restrain behavior thus being able to shape actions.

Some researchers are of the view that institutional quality of resource rich countries play a critical role in the economic growth of a country. Mehlum et al (2006, 3) argued that the resource curse only appears in countries with inferior institutions that these countries constitute both growth losers and growth winners (Mehlum et al 2006, 16). Countries with worse quality of institutions are more likely to suffer from a resource curse basing on Sala-I-Martin and Subramaniam (2003, 10) case study to Nigeria who describe how oil corrupts and excess oil corrupts more than excessively. Atkinson and Hamilton (2003, 10) show that resource abundance may have a negative effect on development when weak institutions allow resource projects to be spent in government consumption rather than investment especially countries with low levels of genuine saving. The most important aspect of institutions is the rule of law and the competence of the state especially the bureaucracy to formulate policies which can help to avoid the curse.

A proper policy may help in reducing the curse effect or convert the curse into blessings. Wright and Czelusta (2004,47) argued that non-renewable can be progressively extended through exploration technological progress and investment in appropriate knowledge and countries which have focused on this have progress while countries with poor policies or institutions lead to bad outcomes this means that institutions must establish good economic policies or institutions favorable for economic growth. Norway is an ideal example of good public management of natural resource revenues where the country saves part of the proceeds and distributes them between generations through a public fund. Atkinson and Hamilton (2003, in Nuno et al 2013, 6) give evidence that a curse may be a manifestation of the inability of
governments to manage large resource revenues sustainably stressing the cases where the combination of natural resources, macroeconomics and public expenditure policies has led to a low rate of genuine saving. Institutions are of great importance because of the crucial link between endowments of natural resources and economic outcomes this is because economic policies and interaction between agents occur in the context of specific economic institutions hence the use of policies may constrain the choices of public and private actors who may undermine social welfare goals in oil producing countries.

Proper public policies and appropriate institutions can ensure that natural resources serve the function that they should that is providing revenue for long term development, sustainable natural resource management and extension of sustainable economic development depend on institutions and practices of good governance. Proper evaluation and accounting of natural resources are necessary of robust development planning as well as transparent institutions and governance (OECD 2011, 7). Managing natural resources entails managing competing demands and multiple resources and values as well as providing environmental protection which requires integrated approach. High quality institutions that promote economic growth are at the heart of good governance which includes regulatory authorities that are reliable and free of corruption, are transparent and accountable. Sachs (2001), emphasizes that transparency and accountability lie at the heart of policy prescriptions to cure the curse, thus governments have a crucial role in relation to the sustainable development of natural resources. I may argue that the quality of institutions remain as an important element in resource governance. The country’s potential to manage its oil resources is much determined the quality of institutions it

### 3.2 Oil governance in Uganda

Oil governance in Uganda is under the National Uganda National Oil Company (NOC). It was founded in 2013 and incorporated in the government’s structure in 2015 to manage the state’s participation in petroleum activities; including marketing of the country’s share of petroleum received in kind from foreign production partners. Unlike Norway’s Statoil which has demonstrated good practice in financial reporting and transparency about government transfers, production and subsidiaries, the NOC is still
in formative stages and has not yet engaged in many of the activities for which it was established. The Uganda National Oil Company is responsible for managing government commercial interest in oil and gas sector, value addition infrastructure and participate in strategic management of the sector. However, there is yet no detailed statute published to guide regulation of the company or provide details on the relationship between the government’s oversight and management of the NOC (RGI, 2017).

Norwegian National Oil Company (Statoil) gives a different story. Oil in Norway was discovered in the 1960s and exploration activities were dominated by foreign companies for developing the first oil and gas fields. Statoil was created in 1972 and since then the company has been involved in numerous exploration, development and production of Norwegian oil and is the leading operator with 67% shares. The company also engages in natural gas supply, research and development, pipeline and decommissioning. What lessons does this give to Uganda? One may ask how Uganda can challenge the power of foreign countries in pipeline, refinery and exploration and production activities when it has no state company involved in the process. This implies that the state needs to take full participation in the important activities in the petroleum sector so as to be able to challenge foreign companies.

Uganda is seen as one of the countries that are struggling to adequately govern their oil and gas resources. The scores are based on the countries’ potential to realize value and manage revenue from their resources. The country’s oil and gas sector scored 44 points out of 100 placing it 51st among 88 assessment index (RGI, 2017) The country’s first steps as an oil producer resemble those of peer emerging African oil and gas producers of Tanzania and Mozambique, however the country performs worse than both countries in the index Resource Governance Index (RGI) 2017.

The index shows that Norway exhibits the best governance of natural resources followed closely by Chile, the United Kingdom and Canada as good performers. Norway scores highly due to its exceptionally strong legal requirements to manage environmental impacts and effectively enforcing them. In comparison to many countries in the global south, where there is often no clear division between political representation of the state bureaucracy and the operational business activities of the state oil company. The Norwegian version of the state enterprise was more transparent
(Ryggvik 2010, 96). This is combined with its sovereign wealth fund which uses oil and gas profits to fund green energy ventures and social services for its citizens. It’s also suggested that Norway avoided the resource curse unlike other petroleum-rich states, it benefited from not having discovered petroleum until much after it had already built a stable wealthy and equitable economy with strong institutions and high standards of living (RGI index, 2017).

In the mid-20th century Norway had a comparatively good balance between the size of the population and economic conditions. Relatively low prospects for oil production and the Norwegian politicians agreed not to mention oil resources in elections shielding the natural resource from politics (Rosale, 2017). Thus the Norwegian domestic and international conditions are different from most SSA countries but this does not mean the model cannot be applied. For instance Ghana was the best performer in the SSA with 66/100 performing well in favorable enabling environment and revenue management practices (RGI 2017). One can argue that this performance is attributed to OFD assistance in Ghana. Thus the same strategies OFD uses in Ghana are the same in Uganda. This can help Uganda to avoid the curse if conditions are met since it has already taken important steps in preparing to manage future potential oil revenues,
Figure 3: Showing the three governance components of RGI

Source: RGI 2017

Uganda scored 42/100 for Value Realization, 42/100 for Revenue Management, 23/100 for Corruption and 47/100 for enabling environment placing the country as a weak performer. According to the report the results are worsened by governance gaps in the extractive sector components such as poorly in controlling corruption which is crucial for good natural resource governance. Low investments whereby so far eight oil production licenses have been issued but negotiations on final investments decisions remain ongoing partly due to disputes over the fiscal regime. There is a gap between the
country’s laws and implementation for instance not publishing the Environment Impact Assessments and Mitigation Plans as required by the Petroleum Upstream Act and National Environment Act. And finally the lack of sharing of information with the general public and local communities has exacerbated concerns about petroleum governance. There is however a slight improvement by the enabling environment.

Figure 4: Showing Uganda’s subcomponent scores

Source; RGI 2017

Uganda scores poorly in revenue management. Although the country is yet to secure investment for exploiting the discoveries that were made a decade ago. It has made important steps in preparing to manage future potential oil revenue. Putting in mind that the assessment of the report covers the period of 2015-2016 a lot of changes have been made.

3.2.1 Transparency and accountability

Transparency and accountability are crucial elements of good governance in oil, gas and mineral producing countries. Access to information about how public resources are managed is vital for both government and citizens in resource management as improved
information disclosure is one way to promote transparency to enhance quality of governance. Transparency is a key factor in the establishment of the systemic conditions conducive to economic growth based on natural resources. It is the first step for citizens to be able to hold governments and extractive companies accountable, identify institutional and regulatory shortcomings to enhance efficiency in the use and allocation of resources.

However, ensuring transparency is one of the biggest challenges faced by most Sub-Saharan countries that depend heavily on non-renewable natural resources for social and economic development as most petroleum endowed countries hold the rights to their natural resources and law vests all rights in their governments. Data on oil revenue from particular projects are often secret with many host governments banning publication of such information standardized as “confidentiality clause” in major extractive sector development contracts particularly for exploitation of oil resources.

According to EITI (Extractive Industries Transparency Initiative), transparency is a solution to managing natural resource wealth if extractive firms disclose publicly payments to government. Citizens hold governments and firms accountable. This improves the management of the natural resources, reduce corruption and mitigate conflict. It also empower citizens to demand more equitable and sustainable development. The release of information enhances trust and legitimacy in ways that improve relationships between civil society, the private sector and governments which establish a foundation for effective and stable governance.

The perception of the EITI as an institution has been however partially tarnished by the fact that despite the new transparency measures of the US, EU and other parts of the world, most of these nations are not actually full members although some are supporters and donors. Norway is the only nation to have become compliant to EITI member. This has led to some countries especially African countries to refuse to participate. Also implementing these measures in Africa may be difficult as issues that exist need to be dealt by Africans and their leaders first (Ayuk and Gasper 2017, 94). The EITI is further criticized for losing the edge in promoting transparency and that it lags behind nation legislations in some countries when it should have promoted these changes. It’s criticized for its inability to act on information it gathers and concretely benefit the
populations of member nations but rather running pilot projects on beneficial ownership since 2013 in a few compliant member states (Ayuk and Gasper 2017, 98).

Basing on the EIF (Essence et Lubrifiants de France) scandal in Congo in which Congo had suffered in the decades following its independence under what was perhaps the most successful system of corruption, bribery, political coercion and neocolonialism to have affected the African continent in living memory under the French oil company EIF, (Ayuk and Gasper 2017, 82) asserts that Africa’s corruption problems are not solely caused by fragile government structures and dishonest leaders, institutionalized corruption can dress itself up a social responsibility, bilateral support, economic development planning, military aid or FDI. Transparency plays a role in helping countries fend themselves and take advantage of their own resources. Without transparency local leaders and other interested parties accountable for their mismanagement of resources in which civil society requires access to data to work for the benefit of the people at large.

National oil companies are distinguished so often by lack of official figures, audits or annual accounting. Detailed breakdowns and confirmation of company expenditures on community development, oil reserves and on environmental impact are almost impossible to access and verify (Michael. J. Watts 2005, 389). Michael (2005), further argues that the entire oil operations and the practices of joint ventures is effectively secret. Corporations rarely disclose the nature of payments, details of memorandum of understanding between governments and companies. Oil and gas firms are perceived to be inherently corrupt in the public consciousness and many people believe that the only way to counter this is by imposing strict and heavy punishments. As governmental and regulatory institutions become stronger in resource rich countries, the acceptance of unlawful activity is affected and how it changes is decided above all by political will and by the oversight of civil society, sometimes a centralizing figure can make or break the success of an initiative (Ayuk and Gasper 2017, 94).

According to the OECD report (2011,7), transparency and effective mechanism for revenue management are essential instruments for ensuring that natural resources wealth translates into sustained economic development. Maximizing the value of natural resources for sustained growth and development and avoiding the resource curse requires policies that formalize and codify revenue management procedures. This
involves creation of a fund that receives resources revenue and that is overseen by a specialized administrative unit. Such funds allow countries to invest wisely. Examples of successful cases with natural resource fund is Norway from its oil and petroleum sector (Havro and Santiso 2008). Remer and Greenstein (2012) argue that African governments, donors, multilateral institutions, extractive industries, banks and civil society all have roles to play in boosting transparency and accountability instead of putting the natural resource wealth into pockets of corrupt officials.

3.3 Chapter summary

In this chapter, I have presented literature on the resource curse theory, different perspective on its relationship with natural resource abundance. In this scholarly literature the resource curse is understood as a result of weak institutions and poor governance coupled with issues of transparency and accountability in those institutions. In the next chapter we shall see how poor institutions and poor governance can be a direct result of a country's aim to attract Foreign Direct Investment. Countries rich in natural resources but little technical knowledge of how to do production would need to attract foreign companies that foreign investment to gain the skills and the resources needed. As we shall see this can be a double edged sword.
4 Foreign Direct Investment aid (FDI)

The chapter discuss on how resource rich developing countries work to attract FDI (Foreign Direct investment) particularly for the development of their petroleum sector. Uganda has been a forerunner of the African countries in deregulation in order that the country should be found attractive for foreign investment.

4.1 FDI in Uganda

FDI in Uganda started from 1990s from nearly to zero to about 35% of the GDP in 2006 accounting to 5th of total capital accumulation in Uganda. However, the mining sector particularly oil and gas did not take up large shares of total investment in 2008-2011, investments increased from 2012. From 2012, FDI rose to 93% compared to 74% in 2011 primarily because of the petroleum sector (UNCTAD 2013, 74). The country has remained a head of several other African economies in offering incentives and creating favorable environment for foreign investors. And with the discovery of oil, the projections were increasingly for FDI inflow into the country. Uganda had a significant increase in a value announced Greenfield FDI projects during 2015 amounting to US$4653 million. This was directly attributed to the country’s petroleum refinery industry with an estimated capital expenditure value of US$4000 million by Russian Technologies State Corporation (World Investment Report 2016, 73).

Uganda’s donors in oil and gas engage in the sector according to their strength and expertise; since 2009 Norway has been the leading development partner in the petroleum sector; The International Monetary Fund (IMF) is providing support on petroleum revenue management; The African Development Bank (AFDB) is providing support on infrastructure; Ireland is giving support to civil society together with the Department Of International Development UK (DFID). The World Bank is helping with environment regulations as well as petroleum sector support project (Global Witness 2010).

After reaching a record level of 1.2 Billion US Dollar in 2012, FDI inflows in Uganda declined to 541 Million US Dollar in 2016 (UNCTAD, 2017). In comparison, Donors
belonging to the Organization for Economic Cooperation and Development (OECD) have contributed to over $19 billion to Uganda’s rehabilitation and development the past 25 years (Global witness 2010, 4). Although the proportion of Aid given in the government annual budget has been declining since 2010 donor funds still amounted to 35% of the total budget. Donors have a big stake in ensuring that resource wealth is used in development purposes.

The World Bank report 2016/2017 suggests that Ugandan economy may recover to above 5% in 2017/2018 and to 6% in 2018/2019. This anticipation of accelerated FDI inflows, infrastructure development due to oil production and exploitation is as a result of oil discovery. The report also shows the win-win nature of China-Africa economic cooperation. Uganda’s FDI was $1.418b in 2013 and $1.74b in 2012. The top FDI sources in 2013 were India (111 projects), China (62 projects), the United Kingdom (18 projects), Pakistan (16 projects), Eritrea (14 projects), Kenya (13 projects) and the United States (8 projects). The major recipient sectors of Foreign Direct Investment during the year were mining and quarrying accounting for 49% (or sh1, 106.5b) of the total FDI (New Vision, 2017). The Foreign Direct Investment inflows to Uganda were consistently high above US $1 billion from 2012 to 2015 and this was due to the newly confirmed vast mineral resources and the promising nascent oil sector which was registering commercial findings of oil (Annual Investment Abstract 2015/2016).

Many developing economies encourage Foreign Direct Investment to facilitate economic growth. For many developing countries, FDI has become the largest source of external finance, surpassing Official Development Assistance (ODA), remittances or portfolio investments flows. In 2016 more than 40% of $1.75 trillion of global FDI flows to developing countries (World Bank, 2017). This is because the domestic savings rates are too low to provide the resources needed for substantial investments. FDI is needed for providing business skills and technology due to the weak domestic business sector to drive private sector-led development on their own. Some analysts argue that it is difficult to envisage how African economies could generate modern business on a sufficient scale to bring about the type of structural transformation needed if they are to achieve meaningful middle-income status (UNCTAD, 2017).

FDI has both benefits and costs. FDI can benefit a host country by bringing capital, technology, capacity and jobs. But these often come at a cost. When foreign
companies move in they often import components from their home-country that can impact balance of payment position. FDI has also been criticized as not having enough proactive action in preventing elite capture of the oil industry. Historically, donors have failed to engage in the right way and at the right time in the sector, often treating it as a second-string issue behind the delivery of services such as education and health. This is seen as problematic as resource revenues are being looted and governments seen as becoming less answerable to its citizens. Donors, it is argued therefore, should link aid disbursal to performance on basic standards of good governance, transparency and accountability in the natural resource sector (Global witness (2010, 16).

“Many African presidents believe that the development our nations will come from FDI. If a foreign investor showed up in the capital of an African country, he would easily get audience with the president even where local investors take months or years to be listened to.”

Mwenda, journalist 2017)

Mwenda argues that many poor countries have the belief that to develop, Africa needs to adopt the ways of the developed (western) world. They lack sufficient savings to finance necessary investments and FDI fills in the gap. FDI brings skills both technical and organizational in addition to integrating the local economy into global system of investment and trade. However, for any country to have meaningful development it must involve local players. This is however constrained by lack of political will in many African countries. FDI is also associated with profit repatriation much as they come with benefits, FDI are into business and their objective is to maximize profits.

OFD claim that they are concerned about local content in Uganda’s oil industry but there are critical voices claiming that OFD seem reluctant to advise the government to require such content from foreign companies. They only build capacity of Ugandans and neglect the foreign companies who are involved in the industry (SEATINI and NCA, 2011, 23). Local content which was used by Norway’s petroleum sector development, claims to secure national and local spin-off effects from foreign companies’ activities. This requires technological transfer, joint ventures and use of local labor and national sub supplies. Although initiatives were started in 2010 offering scholarships to Ugandans for training in petroleum and gas by the oil companies
these companies still come in with their highly skilled and specialized employees to fill the high positions. A small portion of Ugandan labor is required since the oil and gas industry is capital intensive rather than labor intensive.

4.1.1 Oil companies in Uganda’s oil and gas sector.

The major players in the oil and gas sector are total E&P Uganda (TOTAL), Tullow Uganda operations pty limited (TULLOW) and China National Offshore Oil Corporation (CNOOC). The three are all holders of production licenses issued in respect of the exploration block in the Albertine Graben. These companies are joint venture licenses in exploration areas 1&1A, 2(Northern Lake Albert basin) and kingfisher discovery area in southern Lake Albert basin.

By 2010-2012, TULLOW had acquired 100% of the three licenses and was the leading and major shareholder before farming down to CNOOC and TOTAL. In 2011, the three companies entered into partnership where TULLOW farmed-down to TOTAL and CNOOC in an agreement that saw each of the three partners acquiring stakes of 33.3% interest in the Lake Albert exploration areas 1, 1A-Lyec, 2&3 kingfisher. According to the decision of the government of Uganda, TOTAL became the operator of block 1, TULLOW operator of block 2 and CNOOC operator of block 3A. Together the partners had concluded all the exploration activities and were soon moving into the development phase of Uganda’s oil resource.

However, on 9th January 2017, TULLOW sold 21.5% of its 33.33% interest exploration areas 1, 1A%2 AND 3A in Uganda to TOTAL for a total consideration of 900 million US dollars. The agreement allowed TULLOW to retain an 11.76% interest in the upstream and pipeline. However, under the sales and purchase agreement, TULLOW will remain with 10% when the government formally exercise its right to back-in.

In March 2017, CNOOC subsequently exercised its pre-emption rights under the same agreement to acquire 50% of the interest being transferred to TOTAL on the same terms and conditions. This move by CNOOC came with disagreements and critic that the
move was to evade TOTAL’s majority shareholding in Uganda as the sole operator since it’s the largest company in the country. The two partners TOTAL and CNOOC “agree to disagree” on acquiring TULLOW’s assets. Disagreements on whether total could fully take on EA2 since it’s in preparatory stages just like EA or whether it would be split that is total takes northern part EA2 and CNOOC the southern part. CNOOC wanted the whole block while total wanted to split. The president had to come in to resolve these fights. Matsiko (2018) reported that the president helped to speed up the process and dispelled fears that the fights could put oil production beyond the 2021 deadline set by the government. However the final decision has not been made as it is expected in the first half of 2018. Tullow’s sell was seen as a bid to free resources to enable it to continue operation in Kenya (Fredric Musisi, 2017). With TULLO’s way out, two new companies Australia’s Armour Energy and Nigeria’s Oranto Petroleum were issued exploration licenses in 2017.

Looking at the trend by which companies have been coming in and out, it is important to note that there is no Ugandan Company involved in the exploration not even into partnership with any of the foreign companies. This makes one to ask if there are no qualified company to carry on Uganda’s resource wealth given a long period of its discovery. It is important to know that even though FDI comes with linkages, there is no horizontal linkages at the exploration level between the main oil exploration and production companies and Ugandan companies. This is because no Uganda Company exist at that level with capability and capacities in the sector. One may indeed question, how will the country be able to manage its oil and gas resource when they are in the hands of foreigners?
Figure 5: Showing the status of licenses to the oil companies in the Albertine Graben

Source: Petroleum Exploration and Production Department (PEPD) 2014
4.2 Chapter summary

I have discussed how developing countries are turning to FDI for developing their economies. FDI in developing countries extend beyond capital, providing productivity gains in form of technical know-how, knowledge, managerial and organizational skills, access to foreign markets and increased competition and productivity in local markets. On the other hand FDI can exert a negative effect by increasing competition in local input and output markets thereby undermining local performance of firms. I have presented the oil companies in Uganda’s oil and gas sector it’s important to note that there is no Ugandan oil company in the exploration and production of its oil even though the natural resource is under the government’s control. This brings to question whether the country can be able to manage its resources without full involvement in the production stages. Or is it one of the reasons it has taken so long to start commercial production?
5 The Norwegian experience

Norway has been often regarded as a model example on how to manage the natural resources especially when it comes to oil and gas. It is understood that Norway avoided the resources curse due to its strong institutions and political management of the countries natural resources. Norway has thus seen itself particularly capable of helping countries in the global south avoiding the curse. Yet critics argue that it is problematic the Norwegian management system will fit in different political regimes.

In this section I present the Norwegian oil for development program sharing the Norwegian experience and expertise in Uganda. As a way of assisting the country in petroleum sector management. My theoretical perspective is the institutionalization theory. This describes Norway as creating new institutions and policies in natural resource- rich countries and employing good management techniques, administrative system, local content and regulatory framework to avoid the resource curse. Thus, explaining the resource curse as a result of weak institution and weak state capacity.

5.1 Cooperation between Norway and Uganda

Development cooperation between Norway and Uganda began in the mid 19602 with arrival of Norwegian forestry experts, however the cooperation was suspended in 1973 during Idi Amin brutal dictatorship but resumed after his removal in 1980s. In 1996 Norway established a permanent embassy in Kampala and Uganda was accorded the status of “major development partner”. Total Norwegian assistance to Uganda between 1990- 2015 amounts to more than 700 million kroner with the energy sector development as the most important focus (Norad 2016). Norway has assisted Uganda’s petroleum sector since the 1980s and played a central advisory role in the management of petroleum resources and the development of clean energy in the country.

The first significant relationship between the two countries started in 1993 when a government official was sponsored by an eight weeks diploma course in Stavanger organized by PETRAD, to date the country has continued to benefit from this training annually and sponsored by International Programme For Petroleum Management and
Administration, PETRAD through numerous workshops, seminars targeting different professions including politicians, ministers and members of parliament (Heglund, interview). Bilateral assistance to the country in 2017 was 247 million kroner in various sectors including environment and energy 18 million kroner, good governance 81 million kroner, education 53 million kroner, economic development and trade 32 million kroner, health and social services 11 million kroner and emergency assistance 51 million kroner.

Figure 6: Showing Norwegian bilateral assistance to Uganda 2017

Source; https://www.norad.no/en/front/countries/africa/uganda/

Norway is both a major donor and development partner in Uganda. Although there are no Norwegian oil companies operating in Uganda, the country has made significant influences in Uganda’s energy sector. The Norwegian state institutions involved in Uganda’s energy sector include, NORAD, the royal Norwegian embassy Kampala, Norfund and GEIK. Norad is the Norwegian agency for development cooperation administering Norway’s development assistance to the country and the assistance is channeled through the Norwegian embassy in Kampala. Norfund (Norwegian investment fund for developing countries) is an investment company owned by Norwegian government and acts as a key instrument of Norwegian development policy (norfund.no). Its mandate is to invest in profitable businesses in developing countries in order to fight poverty and create sustainable development. GEIK is the Norwegian
guarantee institute for export-credit, helping Norwegian companies establishing business in high-risk countries; thus helping developing countries get investment.

Both Norwegian state and Norwegian private companies are involved in hydroelectricity projects in Uganda. Due to high financial risks and high costs private and state actors often cooperate. Otherwise such investments are too expensive for Uganda to manage on their own. For instance the Bugoye hydro power plant opened in October 2009 in western Uganda was financed and constructed by the Norwegian regional energy utility company TrønderEnergi together with Norfund. The plant is meant to be transferred to Uganda after 25 years. This project increased electricity supply in the country as well as provided employment for many Ugandans thus was described as a success by both countries (Norfund.no). The success of this project contributed to an interest for potential Norwegian companies to invest in Uganda’s energy sector. In November 2010, a renewable energy business delegation visited Uganda from Norway to explore potential different renewable energy technologies and business opportunities. These consisted of TrønderEnergi, Norfund, Jacobsen Elektro, Energi Norge, NORAD and the International Centre hydropower (ICH)

Norwegian companies have also been involved in other projects for instance, Norplan involved in Isimba hydropower project and also Norplan and Veidekke were originally involved in the Bujagali hydro project but had to withdraw due to financial reasons and Veidekke was also accused of corruption in connection with their involvement in the project. In 2008, Norpak power limited a Norwegian consortium was involved in the Karuma project but withdrew in when the World Bank rejected financial support for the project (SEATINI and NCA, Uganda 2011, 22). Jacobsen Elektro is another Norwegian company that operates through Jacobsen Uganda power plant limited and has been in Uganda since 1998 as a turnkey contractor for substation refurbishment and supply of electrical equipment.

In 2008 they opened a 50mw thermal power plant based on heavy fuel-oil in Namave outside Kampala. This was financed by Norad. The same company was contracted by TULLOW oil to construct a 57mw heavy fuel-oil power plant and 132kv transmission lines covering 200km in western Uganda. The plant and transmission lines are part of an early production system also including the oil refinery. The company depend on an export-credit guarantee from GEIK (SEATINI and NCA, 2011, 23).
In addition there are two major Norwegian consultancy companies that is Norplan and Norconsult that have been involved and offered services in connection with hydropower projects. Norplan was the consultant for TrønderEnergi hydro power plant and also carried out the environmental impact assessment for Jacobsen Elektro’ power project in Namanve ans has worked with Isimba power project in the river Nile. On the other hand Norconsult was contracted by Norad to assess the profitability and sustainability of the power plant transmission lines that Jacobsen Elektro was contracted to construct in western Uganda (SEATINI and NCA, Uganda 2011, 24).

As noted earlier, there are no Norwegian companies involved in Uganda’s oil and gas sector. The Norwegian actors involved in the sector are limited, the only private company Jacobsen Elektro is involved in construction and operation of thermal power plants. Norad’s Oil For Development programme is the major actor and works with the Ugandan authorities in strengthening the capacity and management of the petroleum sector. However Norway is indirectly or directly involved as a foreign direct investment actor in Uganda. One may argue that the purpose of OFD is to create a friend relationship with the Ugandan government in hope that this will result in Norwegian companies gaining favorable contracts in the country.

Musoke (2018) reported that;

“…In terms of trade and investment, that too is increasing. We see more Norwegian companies, in particular those in the renewable energy field, looking for opportunities in Uganda. We have had several trade and investment delegations to Uganda over the past two years. We have a Norwegian company that has shown interest in exporting Ugandan coffee to Norway in an innovative way – by subscription. They want to have as much as possible of the value added here. Instead of just exporting the beans, they want to roast the beans here, package and market so Norwegians can pick the coffee in their mail boxes. There is also a company with Norwegian investors which provides sophisticated software to the financial sector in Uganda and in Norway” as told by Susan Eckey, Norway’s ambassador to Uganda in an interview.

However OFD officials argue that the intent of OFD is to help and ensure that Uganda reap the benefits of its resources; Heglund noted although there are Norwegian
businesses in Uganda, these have nothing to do with the policies and strategies of OFD in the country. Norwegian investments in the country are described in the manner of helping Uganda to prioritize investments for sustainable development and fight poverty rather than profit making. But critics argue that OFD do not live up to the aim of using local capacities and resources, here too it is argued that foreign companies are used and thus do not support local companies to engage in the national oil industry. (Anonymous interview).

5.2 The oil for development programme

The Oil for Development Programme was launched in 2005. Currently the programme is working in 12 partner oil-resource rich countries in Africa, Asia, Middle East and Latin America. According to Norad, OFD was in response to continuous and numerous requests from countries that wished to learn from Norway’s experience in petroleum management. The programme presents a “thematic broadening of the petroleum sector development assistance that Norway had provided since the early 1980s through increased focus on revenue and environmental management (Norad, 2016). Through OFD, Norway shares its experience from more than four decades of managing oil and gas resources with key characteristics including:

- **Strategic ownership by the state, strong and competent institutions.**

- **Continual accumulation of technical knowledge, an advanced regulatory system with high respect for environment, health and safety.**

- **The society’s determination to secure national control over petroleum resources**

The OFD aids developing countries in their effort to manage petroleum resources in a sustainable manner with three pillars of - Resource Management, Environment Management and Revenue Management Pillar. The programme takes a holistic approach combining management of Resources, the Environment Safety and Revenues. The resource curse was a key concern and important starting point of OFD. OFD focuses on building a stronger, more competent and accountable public sector in order to address challenges of governance. In order to counter the curse, high quality institutions with legitimate and accountable management of the petroleum sector are
necessary preconditions. OFD targets poverty reduction through responsible management of petroleum resources with;

- **Legal framework** with sound policies legislation must be in place, organized in a manner that ensures oversight and minimizes conflict of interest and duplication of effort.

- **Institutional capacity** to carry out their responsibilities as defined in the legal framework

- **Transparency and accountability** for preventing corruption, parliamentary committee and civil society and media are vital in holding the executive body accountable

These should be independent with relevant capacity and access to information about the petroleum sector. The OFD supports many organizations working to enhance accountability such as Global Witness, WWF, and Thomson Reuters Foundation and also collaborates with partner institutions, inclusive processes and information dissemination.

The essence of Norwegian oil for development assistance which is referred as the “Norwegian model or experience” is that countries have a possibility to learn about Norway’s experience with developing successful petroleum sector but not impose any model to other countries. It emphasizes “international best practice” (Heglund, interview). The programme shape their interventions upon the perceptions of the resource curse, the programme is criticized for taking the resource curse as an unquestionable truth and thus craft their inventions within this frame. (Havro and Santiso 2008)

### 5.2.1 Programme structure and funding

The main approach of OFD program is support for capacity development through institutional collaboration with Norwegian institutions and partner country institutions. The Norwegian public institutions involved in OFD programme include; the Norwegian Petroleum Directorate whose role according to Turid Øygard (NPD project coordinator to Uganda) is to build expertise and to support the authorities in handling the petroleum

Other partners associated are consultancies and research institutions, multilateral actors such as IMF and the World Bank as well as civil society organizations and media and academia (Norad, 2016). These work in collaboration with Ugandan public institutions including The Ministry of Energy and Mineral Development, The Ministry of Finance, Planning and Economic Development, The Ministry of Water and Environment, National Environment Management Authority, Uganda Revenue Authority and Uganda Bureau of Statistics.
1. Policy makers set goals and define assign responsibilities

OFD provides capacity development related to policies and legal framework governing the petroleum sector.

2. The authorities regulating the petroleum sector carry out their assigned responsibilities.

OFD develops capacity through long term institutional collaboration between Norway sector authorities and Uganda institutions.

3. Policy makers and regulatory authorities are held accountable for their management of the petroleum sector.

Through dialogue OFD suggests opportunities for transparency and inclusion in institutional frameworks and their implementation. Here OFD supports CSOs working to enhance such capacity.

Figure 7: Showing the Governance structure of OFD

Source: Norad annual report 2014
5.3 Programme objectives and activities

The resource curse was a key concern for Norwegian Oil for Development programme in an effort to assist Uganda in managing petroleum resources in a sustainable manner. OFD uses a holistic approach combining three pillars of Resource management, Revenue management and Environment management. With focus on good governance and institutional capacity building behind these three pillars. The programme focuses on addressing macro-economic instabilities and political distortions associated with the oil sector. OFD approach entails strategies of good governance including transparency and accountability as well institutional capacity building and technical know-how.

5.3.1 The first oil for development programme (2006-2009)

The first Oil for Development was “Strengthening the State Petroleum Administration of the Upstream Sector in Uganda” covering 2006-2008 with an extension of six months. Grant agreement was signed in December 2005 amounting to 1.8 million US dollars. Cooperating institutions included Ministry of Energy and Mineral Development, Petroleum Exploration and Production Department (PEPD) and International Programme for Petroleum Management and Administration (PETRAD).

The goal was to ensure that possible petroleum resources are managed in a way that contributes to sustainable development of the national economic and welfare of the people of Uganda. The objective was to strengthen the administrative functions of policy, legal and institutional framework based on experience from Norway and other countries similar to those in Uganda. The programme was responsible for strengthening the planning and regulatory functions in the petroleum exploration and production department (PEPD) and to study the conditions necessary for commercial development of oil and gas in Uganda. The programme had three main components namely; (i) Policy, Legal and Regulatory Framework (ii) Institutional Development and Capacity Building for PEPD (iii) Technical and Economic Studies (NORAD/OFD Annual Report 2009).

At the end of 2007 after completing the second year of the programme 46% of the total approved financial resources had been used. The main achievements in 2007 were: Policy, legal and regulatory framework Consultations on the draft National Oil and Gas
Policy had been concluded and the draft was submitted to the Cabinet of Ministers for consideration before approval. A working group for the new Petroleum Law was established with participants from Uganda and Norway. The working group had prepared draft principles for the new law. Representatives from the authorities in Uganda had visited Norway and met with different Norwegian institutions. The Ministry of Finance contributed within the area of good management of petroleum revenues. The DN (Directorate for Nature Management) briefed and informed on capacity and competence of Norwegian institutions relevant for cooperation with institutions in Uganda (NORAD/OFD Annual Report 2009).

Capacity building: Institutional cooperation in the area of Health, Safety and Environment issues for the oil and gas sub-sector was established. Various training courses, industrial training, seminars, workshops, conferences and study tours had been organized for PEPD staff and other government institutions. Geochemical laboratory equipment had been procured and information technology facilities improved. Technical and economic studies Workshops were organized in preparation for upcoming early production plans for capacity building in evaluation of development plans and basics of petroleum refining.

According to the OFD programme manager in Uganda Malinga, by the end of the first Oil for Development programme the following had been achieved; Formulation and putting in place the National Oil and Gas Policy (NOGP) for Uganda approved in 2008 which supplemented the country’s energy policies and the draft petroleum bill in 2009. The policy stated that;

“Oil and gas are non-renewable extractive resources which are therefore finite and that its exploitation and utilization shall be undertaken in a manner that creates durable and sustainable social and economic capacity for the country in accordance with national development plan”.

Designing and putting in place the basic infrastructures needed for proper administration of the upstream subsector. Procurement and installation of the gas chromatography computer services and its accessories, a 24-hour broad band internet connectivity and development of data management system and procurement of data transcription system. Gas utilization study and initial consideration for refining and
pipeline infrastructure were undertaken. He further stated that a good number of government official participated in various training courses, seminars, workshops, conferences and study tours, workshops on activity reporting and monitoring procedures and resource assessment were undertaken.

The programme was successful in achieving its purpose of strengthening the state of petroleum administration with regard to policy, institutional framework and administrative functions; of strengthening the planning and regulatory functions in PEPD and studying the conditions necessary for commercial development of oil and gas in Uganda. The long-term relationship between Norwegian and Ugandan institutions involved in the project and use of highly qualified advisors contributed to the well-functioning and efficiency in programme management. However, the programme was too ambitious in a number of activities and outputs which were to be achieved within a short period which were never the less postponed to the second oil for development programme. The second programme builds on “strengthening the state petroleum administration in Uganda” (Malinga, interview).

### 5.3.2 The second oil for development programme (2009-2014)

The second Oil for Development programme was the “Strengthening the Management of Oil and Gas Sector in Uganda” which builds on the first on for development with around 147 million kroner in total for five years with a no cost extension of six months. The goal was to contribute to the achievement of the National Oil and Gas policy of Uganda whose purpose is to use the country’s oil and gas resources to contribute to early achievement of poverty eradication and creating value to society.

The purpose of the programme was to ensure a well-coordinated and result oriented in areas of resource management, revenue, environment management and HSE (Health Safety and Environment) management in the oil and gas sector. The programmed was managed by MEMD, Ministry of Finance Planning and Economic Development (MoFPED), National Environment Management Authority (NEMA) and Uganda Revenue Authority (URA).
The agreement was signed on 9\textsuperscript{th} July 2009 for the five years period till end of June 2014 with an agreed budget of 80million kroner. However, in 2013 based on request from Uganda, Norway agreed to provide addition additional 67million which was signed on 21\textsuperscript{st} July 2013 providing a total of 147million kroner. In October 2012, however all Norwegian financial assistance to the public sector in Uganda was frozen due to the 23 million kroner missing from funding to the office of the prime minister (though not OFD funds). Support resumed in June 2013 after the funds had been replaced. This interruption in funding meant that many of the activities planned for 2013 had to be at stake and were postponed. Due to the interruption, Uganda requested for a no cost extension of the programme activities till end of 2014 which was agreed to by the two parties.

The objective was to establish and effectively manage the country’s oil and gas resource potential with three components of legal and regulatory framework, capacity building and midstream development. This pillar produced institutional development in form of legal frameworks for the sector. Where key laws were passed for example the Petroleum (Exploration, Development and Production) Act 2013 Enacted in 2013, Petroleum (Refining, Conversion, Storage and Transportation) Act 2013 Enacted in July 2013, development of a draft National Content, HSE and metering regulation for Midstream and Upstream Acts.

This led to a new-institutional set-up for the sector with an independent Petroleum Authority as a regulator strengthened directives in the MEMD and a State Oil Company which was agreed, transitional units were put in place by 2015 though were delayed. Furthermore, there was development of a bio-stratigraphic framework for the Albertine Graben. And development of a crane database to manage the country’s petroleum data which lead to the country being considered as having high quality system and capacities and tools for carrying out resource estimates. In addition to development of an ICT policy and strategy for oil and gas and procurement of additional IT equipment and software to the IT strategy.

The Resource Management pillar was able to attain most of its achievements due to the strong ownership of the program by Ugandan institutions and Uganda’s priorities and needs. The other factor was the cooperation between PEPD and the collaborating Norwegian institutions which build trust and mutual understanding (NORAD/OFD
annual report 2014, 28). The Norwegian inputs are considered highly relevant by the Ugandan partners and the technical expertise very competent. However, not all was achieved as the freezing of the Norwegian funding from October 2012 to July 2013 led to the standstill of some activities from November 2012 to July 2013.

### 5.3.3 The third oil for development programme (2015-2018)

The third Oil for Development programme was “Strengthening the Management of Oil and Gas Sector in Uganda, Phase II (SMOGP.II). The goal was to contribute to the achievement of goal of the National Oil and Gas policy of Uganda. The purpose was to ensure a well-coordinated and results oriented in areas of Resource Management, Revenue Management and Environment and HSE in the oil and gas sector.

It is coordinated by MEMD and covering Resource, Revenue and Environment pillars. The main objective of this program is to conclude unfinished activities of the first phase for example drafting the attendants’ regulations to the laws passed, implementation of the SEA, and first licensing round among others. New activities and gaps that were identified during the previous programmes are being handled in this phase as the sector goes into the development and production stages (Norad, 2016).

According to Kasita (interview),

> “Things have happened faster in the area of government policy, legislation and fostering of an enabling environment in the last three years than they have been in the seven years before them...”

The Petroleum (Exploration, Development and Production) Act and Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act were passed in 2013. The Public Finance Management (Amendment) Act, which handles petroleum revenue management, was passed in 2015. Regulations on operations, Health, Safety and Environment (HSE), National Content, Metering and Midstream storage were all promulgated between 2015 and 2016.

> “…After more than five years of hand wringing over issues such as recoverable reserves and production allowable, the government finally issued production licenses for nine oil fields in the Albertine Graben, Uganda’s only prospective...”
basin. The government has also set up and operationalized the Ugandan National Oil Company, the Petroleum Authority of Uganda and Directorate of Petroleum”. He noted.

The third Oil for Development brought new different agencies into the petroleum sector activities, the sector is new in Uganda for all Environmental agencies and it is a requirement that these institutions work together. The ramming curve was steep with a comprehensive pillar approach producing joint tools, products, processes and achievement of a common understanding. Although at the beginning it was slow due to various studies as well as need to define priorities and approaches, the partnership with environmental agencies has been strengthened (Malinga, interview).

Among the key achievements was the development of a Strategic Environment Assessment (SEA) for oil and gas activities which presents strategic recommendations for policies, plans and programmes that will guide environmental planning and decision making in Albertine Graben. Management plan for all the major protected areas in the Albertine Graben reviewed and updated, paying special attention to the potential impacts of the oil and gas development with the fragile ecosystems.

Oil spill risk analysis and contingency plan was undertaken and laid a solid foundation for the development of the sound National Oil Spill Contingency plan which was developed by the Disaster Preparedness Department of the office of the Prime Minister in cooperation with National Environment Management Authority (NEMA) supported by the Norwegian Environment Agency in addition to a new Environment Management Act and Petroleum Waste Regulations.

According to Heglund (interview), hazardous waste from petroleum operations in the neighborhood of very sensitive ecosystems within a landlocked country like Uganda is a challenge for such a developing country. It is therefore very important to fully understand and independently assess the nature of waste. In a bid to achieve environmental management, a delegation of representatives from Ugandan environmental institutions visited Ghana to learn about environment management challenges and experiences associated with on-shore oil and gas pipeline from colleagues at the Environmental Protection Agency in Ghana (Norad 2016, 34).
5.3.4 Continuity of OFD in Uganda

As the country is moving from the exploration to production phase different skills are needed such as oil revenue stream management, knowledge of down and mid-stream industry, applicable taxes and other fees collected form produced oil. In this regard the Norwegian assistance is highly desirable. The OFD cooperation with Uganda will continue in a new programme phase, from April 2018 to the end of 2022 including all the four components in the new programme (Heglund, interview).

5.4 Reassessing OFD programme in Uganda

OFD is directly based on the Norwegian experiences from its petroleum sector and presents the Norwegian model which shows that a well-managed oil sector and properly structured revenue management can contribute to a country’s development and overcome the resource curse. However implementing this model requires well-established institutions, competent civil servants and adequate level of institutional capacity which is still lacking in Uganda. Although OFD is assisting in building such institutions through capacity building to develop both skills and efficiency of officials in implementing agencies.

OFD follows the internationally accepted strategies of good governance including transparency and accountability which are promoted by international organizations such as World Bank, PWYP and EITI. However, Solli (2011) argues that with no internationally accepted definition of good governance, a broad approach is deemed necessary as a starting point. The concept of good governance rotates around World Bank’s answer to why its structural adjustment programme didn’t work in the “failed states” as due to lack of capacity as opposed to will (p 70). Good governance entails technical know-how and capacity, this relates and focuses on the institutional capacity required for the state to qualify and function as a state. It also means poverty reduction which is a key goal of the SDG and international aid including Norwegian aid. Lastly a pre-requisite for democracy which includes anti-corruption, accountability, transparency and human rights enter the rhetoric of governance together with civil society (Solli, 2011, 71).
Although in the interview with the OFD senior advisor Heglund, the aspects of political power was highlighted, the concrete focus of the OFD programme is on capacity building. It supports the technocrats rather than involving in the political environment of the country. OFD’s good governance focuses primarily on technical know-how and capacity and emphasizes poverty reduction and democracy. The power and political aspects don’t get the needed efforts as technical and capacity building remains the focus.

However, in Uganda political power aspects have a higher decision-making power especially from the president to almost if not all development matters of the country. NORAD’S 2008 result report explain some of its failure by noting that governance can’t be implemented unless it is supported by political forces and social movements in a recipient country (Norad, 2009). Furthermore, its evaluation in Zambia between 1991 and 2005 notes that when informal power structures trump formal ones, aid to strengthen the later has little chance of working (Norad, 2008).

In response to how OFD operates in a politically challenging context with no easy solution, Heglund had this to say,

“it is the major rational for OFD programme’s presence and conduct assessment of the political economic risk analysis to obtain realistic awareness of the challenge by the political situation and informal structure including the support to civil society which implies a recognition of power dimension as an informed civil society can call on state abuse of oil revenue”.

OFD is demand driven and only enters situations where they think they have a realistic chance of making a difference and where the country asks for assistance, where the Norwegian expertise is needed and where the country is committed to improve the governance (Norad, 2010). In OFD good governance works as a condition to qualify for aid, a tool to implement aid and a goal for aid. OFD sees good governance as mainly technical capacity building which aims to maximize government revenues from oil, and clarifying roles in the state apparatus to contribute to a balance of power between the state and oil industries (Solli 2011, 65). Creating a balance of power between oil rich countries can be understood as clarifying roles and capacity to execute identified tasks.
According to Norad, governance is a key concern in OFD but also the greatest challenge. The rationale for focusing on good governance is the lack of capacity in local and central authorities that impedes aid programs from reaching the stated goals. Good governance is to promote capacity building, development focused politics and poverty reduction. OFD uses the concept in connection with its thematically closely related program “Extractive Industries Transparency Initiative (EITI) which has offices at NORAD closely with OFD.

Heglund maintains that “international guidelines” arising from an “international consensus” on parameters of good governance inform OFD’s approach. Transparency and accountability have been key contributory factors for Norway’s success story. OFD focuses on building a stronger more competent and accountable public sector. By providing support to institutional frameworks and organizational capacities which are an integral part of the theory of change in the OFD programme to avoid the resource curse.

Although Norway is both an implementing country of the EITI standards and provides financial support to the EITI, four countries out of the 12 countries of OFD program portfolio are EITI compliant including Ghana, Mozambique, Iraq and Tanzania, Uganda isn’t yet a compliant. According to Ngabirwa of PWYP Uganda OFD’s removal of a budget item regarding EITI in the 2014 partner agreement with Uganda was such a disappointment.

“We are disappointed with the Norwegian authorities not putting their foot down and demanding that EITI should be a condition of support since they have worked hard for transparency” (PWYP, Norge 2014, Oil in Uganda 2014)

However according to Kvarsvik, a senior advisor at OFD the budget item of 20,000USD was removed because of the uncertainty regarding whether the proposed activities would be carried out. He further explained that they have been encouraging the Ugandan government to work towards implementing EITI and offered financing via OFD, but authorities were not returning any concrete proposals of activities (PWYP Norge, 2014, Oil in Uganda 2014). It should be noted that Uganda has repeatedly expressed concern and willingness to join EITI but has been reluctant to take a solid step towards achieving the goal.
According to Norad (2013, 59) OFD builds its good governance around three pillars namely; the first one is the resource pillar, which entails legislation and regulatory laws focused open and equitable processes for access to resources, standardized rules and contracts to ensure predictability and fairness in sharing risks, costs and benefits.

Norway has been very crucial in supporting and helping Uganda in formulation of institutional development in form of legal frameworks in the petroleum sector. Key laws were passed for example the Petroleum (Exploration, Development and Production) Act 2013 Enacted in 2013, Petroleum (Refining, Conversion, Storage and Transportation) Act 2013.

The second one is the revenue pillar. Through the support from other initiatives such as Norway’s taxes for development to ensure that the country gets its fair share of the resource stream and is fully accounted for in publicly available budget and expenditure documents. For this reason, Norway has given financial support to civil society organizations in Uganda such as PWYP, Global Witness and Thomson Reuters Foundation for ensuring accountability as well as World Wildlife Foundation and Natural Resource Governance Institute for environmental concerns.

Lastly is the environmental pillar which provides support to the country with safeguards, policies and instruments to prevent and address environmental disaster, help in decision makers’ balance opposing interests and concerns when deciding on petroleum exploitation.

Good governance in the petroleum sector entails five elements; firstly, it means clarity in roles. Combating corruption and promoting transparency are of little use if the public institutions managing oil are incapable of fulfilling their roles. Good intentions with lack of mandate and clear roles and resources to manage petroleum resources can still go wrong from a governance perspective. Roles and responsibilities must be clearly formulated to define who has the authority over what (Solli, 2011, 75). This can be done by strengthening the ministry of oil vis-à-vis the national oil company. OFD has helped Uganda achieve this element through its second and third OFD program “strengthening the management of oil and gas sector in Uganda, phase I and phase II (SMOGP.II).

Secondly good governance entails technical know-how and capacity. OFD identifies a need for increased capacity and competence in the state/country in their criteria (Norad
2009). “the strengthening the management of oil and gas sector in institutions, ministries of oil and local oil directorates aims to give officials knowledge. Stipulated in the 2008 and 2009 Norad report for building competence in the ministries and directorates, a good number of government officials have participated in various training courses, seminars, workshops on activity reporting and monitoring procedures and resource assessments, conferences and study tours in relation to capacity building in all aspects of resource management, cost management and HSE (Heglund, interview).

Thirdly governance in petroleum sector refers to sustainable development. This is understood as a long-term oil production involving environmental concerns. That’s why OFD introduced the environmental pillar in its program (Norad 2014 and 2015). To ensure sustainability, a Strategic Environment Assessment (SEA) for oil and gas activities was developed which presents strategic recommendations for policies, plans and programmes that will guide environmental planning and decision making in the Albertine Graben. Further still management plans for all major protected areas in the region were reviewed and updated with special attention on the potential impacts of the oil and gas developments to the fragile ecosystems (Heglund, interview).

The fourth element is accountability which enables the evaluation of set goals and as an anti-corruption measure in the industry. However, accountability is still a major challenge in Uganda despite assistance from OFD. And lastly good governance refers to accessible and correct information about the industry to the public (Solli 2011, 75).

5.5 Challenges and criticism of OFD programme

5.5.1 Challenges

The freezing of the Norwegian funding created a roll-over effects to the programme as implementation of activities was concerned. Following the 2012 embezzlement of 13 million US dollars in aid by officials in the prime minister’s office, the donor countries including EU, Britain, Germany, Ireland, Denmark and Norway froze all their funding to the country. This not only hit Uganda’s economy where the shilling (currency) lost
value to up to 4% but also put to a standstill of the OFD intended activities for that period.

Several stakeholders emphasized that after the freeze, the program partners found it challenging to gain the same momentum as before the freeze (interview by CSO activist). However, although it affected the programme activities, the aid freeze was seen as an action long demanded by transparency campaigners who argue that the money oils a corrupt system. It also exposed the government incredibility and capacity to spend money responsibly (interview by CSO activist).

Inadequate capacity of the staff and inexperienced local consultants contributed to delayed execution and implementation of some programme activities. However, efforts have been put by the Norwegian partners through capacity building in various key areas of resource management, revenue and environmental management for instance key staff from Uganda bureau of statistics increased their knowledge of important statistical methods including oil investment questionnaire methodology and statistic, oil sector representation in national accounts, business register development and data sharing for statistical purposes. This was achieved through a series of workshops and seminars with statistics Norway (Norad 2016, 35). The report further explains that the development of Midstream guidelines and decommissioning regulations were not imitated due to the technical team’s prolonged engagement with other upstream and midstream regulations in the same period. However, Malinga (interview) said that this could have been attributed to the long procurement process in an effort to ensure transparency which has led to delays in goods and services provision towards OFD pogrammes.

In his interview, Malinga noted that the revenue pillar overtime has not received the much-needed counterpart support from Norway. This I have to say can be because of the many corruption scandals in Uganda as the government lost credibility in the 2012 corruption scandal in the prime minister’s office among others. However, OFD annual report 2014 the revenue component produced the least results and a key contributing factor was non-passage of the public finance bill which put many activities at stake contributing to this was the fact that revenues had yet started flowing, pending the start of the petroleum production yet the ministry of finance and economic development staff were still dealing with hypothetical situations and unresolved political questions.
5.5.2 Criticism Of OFD Programme/aid

Norwegian OFD has been criticized by some scholars suggesting that OFD’s motives and actions are questionable. The focus on revenue, resource and environment management which is prevalent in petroleum related aid is too narrow and sector specific to address overarching problems of accountability and unfavorable incentives that are core to the resource (McNeish 2010, 16). Furthermore, capacity building and technical assistance per se does not induce positive institutional change and the programme appears more technocratic especially in countries where key players benefit from below-arrangements.

The program has an inescapable integrity problem in that it targets countries where Norwegian oil companies either operate or compete for licenses (Audun 2011, 78). Kolstad et al, 2009 and Ryggvik and Engen, 2005 argued that there can hardly see the difference between Norwegian aid workers and Norwegian oil industry representatives especially since the embassies are responsible for coordinating the aid. The programme’s steering committee that decides the programme’s strategies, guidelines and priorities is chaired by the ministry of foreign affairs (Norad 2010), fueling the criticism that OFD is a covert strategy to buy Norwegian oil industry goodwill.

In an interview with an OFD senior adviser Heglund on whether Norway had investments in Uganda, Heglund admitted that Norway has investments in the country but was quickly to note that this doesn’t create conflict of interest since they are not related to OFD nor influence OFD strategies in the country. OFD uses a participatory approach inclusive of civil society especially in meeting, seminars and workshops. However, Norway takes more control over decision making as its deemed necessary in terms of strategies to be followed.

Another criticism is that there is no systematic or standardized analysis of the political economy of the recipient countries (McNeish, 2010, 17). Although some policies that have been successful in Norway could potentially be adapted to other resource-rich countries, the difference in countries economic, environment and political culture must be put in mind and policy adaptation should only be considered with great caution (Havro and Javier Santiso 2008, 20). Institutions that work well in Norway may not necessarily work well in Uganda with a different political social set up.
Experiences from other developing countries such as Botswana may be more valuable than from a donor developed country. Kolstad et al 2009 argued that OFD targets the wrong institutions to avoid the resource curse. Building the state institutions managing the oil industry strengthens the patronage-based power structures which created them in the first place. He further argues that OFD’s view of the resource curse resonates on capacity and technical know-how rather than political and social problem.

The indirect development strategy inherent in capacity building entails a largely technical approach that amounts to a form of voodoo anti-corruption strategy. There is no guarantee that the interests of social groups marginalized from the state are included if the strategy to build democracy by supporting reformists in the bureaucracy follows the same logic. Even if the relevant institutions are targeted, informal power structures easily obstruct change as political elites resist change that don’t benefit them. Kolstad et. al. also notes that improving the institutional environment may be difficult where key players from dysfunctional institutions and donors’ lack of information about the political and economic context of the country they are working in, (Kolstad et al 2009, 975). Global witness (2010) states that OFD needs clearer conditions on improving governance and human rights tied up to its aid.

Doctor Duncan Clarke referred to the model as an “advocacy NGO type model” which constrains the growth of resources involving a lot of capital, a lot of bureaucracy and excessive regulations. He stated that Uganda doesn’t necessary have to adopt the model for it to have a sustainable oil industry, (interview, oil in Uganda, 2013). It should be noted that Norway had a well-developed industrialized sector that facilitated the rapid development of its oil and gas resources which conditions don’t prevail anywhere in Uganda. Uganda lacks upstream technology and needs huge amounts of capital to develop its petroleum sector.

In his interview Heglund noted that OFD doesn’t seek to export the “Norwegian Model but rather what OFD does is to introduce the international best practices in oil and gas industry in the country than imposing the model. In addition, OFD is demand driven whereby a country seeks assistance, where the Norwegian experience is needed.

Regarding the criticism of no systematic or standardized analysis of the political economy of the recipient countries being performed, Heglund pointed out that OFD
enters situations where they think they have a realistic chance of making a difference. Heglund commented that Uganda has all the necessary institutional laws and policies and if the government works in interest of the people, there is no doubt the resource can be of benefit to all.

Heglund remarked that the support to civil society is an attempt to impact democratization process beyond petroleum-specific state institutions. The building of knowledge about the oil industry within those institutions is also an attempt to combat corruption. Still on the issue of corruption he acknowledged the challenge but had this to say “the ministers and directors are dedicated, they can’t afford to mess up. The eyes of the world are on them”. In addition, Malinga, noted that all profits are to be paid into a newly created petroleum fund which was developed by the help of OFD. This has a similar set-up to that of Norway. Proceeds will be used to fund infrastructure and other development projects.

However, the public is so skeptical about the success of the fund following the corruption scandals in the country that this money will not be swindled. In a similar way the public finance bill doesn’t disclose to the public and leaves the decision on how much to save and spend each year to the finance minister the same way the petroleum (Exploration, Development and Production Bill) vests all important decisions in minister of MEMD. In an interview with a CSO activists;

“The government decided to set up a petroleum authority for the governance of oil as if it’s an ordinary authority, yet such an institution is very strategic as it is supposed to oversee a finite resource. If the government is setting up the same kind of authority like the national forest authority or wildlife authority or our scandal ridden investment authority, then our country is doomed. At the moment, most of these authorities are facing one crisis or another.”

5.6 Summary

The Oil for Development Programme (OFD) work with the Ugandan government at developing regulations and governance structures for good resource management. Even though Uganda is not yet there as its oil production is under way, OFD programme is aimed at establishing governance structures and regulations so that the resource curse
can be avoided. The Focus of the OFD programme is on good governance indicators such as including institutions and policies, transparency and accountability. The achievements of this initial Programme includes among others, formulation of the National Oil and Gas Policy for Uganda, establishment of the basis for the formulation of the laws, preparation of the Sensitivity Atlas for the Albertine Graben, a study on gas utilization in Uganda and infrastructure requirements, human resource capacity building and designing of institutional development infrastructure for PEPD. I have I also presented the Norwegian-Uganda sector cooperation in the petroleum sector as the major aid and partner assistance through OFD in petroleum sector management but on the other hand as a private investor in the energy sector.
6 Uganda’s oil regulatory framework

This section is in response to the research question; “How has Uganda’s institutions and policies responded to the discovery of oil and gas. It presents the key stakeholders both the state and non-state actors, the legal and institutional framework achieved as a result of assistance and support from OFD programme and the state of exploitation plans in the sector.

6.1 The institutional framework

Institutional development included the National Oil Company to manage business aspects of the sector on behalf of the government, the Petroleum Authority of Uganda to regulate the sector and finally a Directorate of Petroleum for policy guidance and licensing in the upstream, midstream and downstream aspects of the petroleum value chain.

Source: Extracted from Isabalija 2017,
6.2 **The policy and legal framework**

The initial OFD programme’s purpose was “Strengthening the State of Petroleum Administration with regard to policy, institutional framework and administrative functions (Norad 2009). The main reference to the development and planning of the programme cooperation had been the National Oil and Gas policy. In 2008, the government approved the National Oil and Gas Policy (NOGP), which called for the establishment of an appropriate regulatory framework for guiding the use of the county’s oil and gas resources in such a way that they contribute to early achievement of poverty eradication and create lasting value to society.

In line with Uganda’s legislative practice, the NOGP further guided the development of the legal framework and institutional development. Including the enactment of the Petroleum (Exploration, Development and Production) Act 2013 (also known as the Upstream Act) and Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act 2013 (the Midstream Act), the public finance act approved in November 2014 and became law in February 2015.

*Figure 9: Showing the Policy and legal framework in Uganda’s petroleum sector*

*Source: Extracted from Isabaliya 2017*
The policy

- The National Oil and Gas policy 2008

Laws

- The Petroleum (Exploration, Development and Production) Act, 2013
- Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act, 2013
- Petroleum Supply Act, 2003
- Public Finance Management Act 2015 that handles petroleum revenue management

The regulations

- The Petroleum (EDP) Regulations 2015
- The Petroleum (EDP) (Health, Safety & Environment) Regulations 2016
- The Petroleum (EDP) (National Content) Regulations 2016
- The Petroleum (EDP) (Metering) Regulations 2016
- The Petroleum (RCTMS) (National Content) Regulations, 2016
- The Petroleum (RCTMS) (Health, Safety & Environment) Regulations, 2016
- The Petroleum Supply (General) Regulations 2009
- Petroleum (Marking and quality control) regulations, 2009 REGULATION

Agreements

- Model Production Sharing Agreement and Joint Operation Agreement
6.3 Exploitation plans and state of affairs

Production can only commence following the issuance of a production license which authorizes the holder to produce petroleum from a field where appraisal has been completed and development plan approved. Commercial production requires putting in place infrastructure such as processing plants to separate the crude from impurities like sand and water, pipelines for transportation of crude from the field, refinery to transform the crude into various products such as diesel, kerosene and facilities for export of the crude oil. These and other infrastructure such as road network, water and electricity in the Albertine Graben are being upgraded to support these developments. Full scale production has been earmarked for 2020 after the necessary infrastructure are in place.

The Government of Uganda signed a Memorandum of Understanding (M.o.U) with its upstream partners in February 2014 to construct a refinery which will initially have the capacity of refining 30,000 barrels oil a day. This capacity is expected to be pushed up to 60,000 barrels in 2020. The official discussion began in early 2013 chaired by the MEMD (Minister of Energy and Mineral Development) with support of the permanent secretary and commissioner of PEPD (Petroleum Exploration and Production Department), senior representative from finance, URA (Uganda Revenue Authority), B.O.U (Bank of Uganda), And UIA (Uganda Investment Authority) and representatives from national and lawyers of each oil company with support from international technical and legal experts. The estimated cost of the refinery project is USD 3.5 billion which seems costly both to a developing country like Uganda. This is because the project is both capital intensive and needs high technological advancement with well skilled and trained labor. Thus this calls in a public-private partnership as well as donor assistance.

However, the negotiation process was highly conflictual that spanned over a year. Points of contention centered on three issues; the oil refinery, the use of international arbitration and the process for approving the field development plans of the IOCs (international oil companies). The government of Uganda wanted to first add value to its oil locally before exporting it in crude form, including through the manufacturing of petroleum-related products for domestic consumption and export within the region. The
president proposed this refinery as a means of avoiding the Dutch disease effects and the country’s wider project of securing socio-economic transformation.

By March 2013, the government produced a draft M.O.U to be signed by the president on 11th April which was justifying the plans for a refinery with reference to the existing PSAs with Tullow and also the agreement to allow partners to construct a crude oil pipeline. Clause 4.1 spelt out that the refinery will develop in two phases, to 30kbpd and then to 60kbpd and will continue to have first call on oil even if it expanded further. On 17th April Tullow wrote to MEMD accepting the refinery but demanding that it be small and permitted to grow beyond 30kbpd only if Uganda could prove that it had the market demand for extra supply. In response PEPD cited a report that they had commissioned from the Norwegian consultancy agency; Foster Wheel, which argued that the refinery was much more cost-effective and economically productive for Uganda than crude export pipeline, that as Uganda could produce 180-220kbpd there would be enough oil left to export after the refinery had taken its share (Hickey et al 2015, 17).

The disagreements continued over within the meetings which followed not only over the size of refinery but also the pace to its development vis-à-vis the pipeline and the parties failed to secure an agreement. In May 2013, the oil companies rejected the M.O.U citing the refinery plans as unacceptable and the president too rejected the oil companies’ demands of sharing the burden of supplying the refinery as well as integrated development plans with oil companies which were granted licenses at a later stage.

Eventually after various meetings and disagreements, Ugandan government successfully negotiated and signed the M.O.U with IOCs on 7th February 2014 which reflected its priorities though with some concessions. However, the government managed to secure the plans to establish a refinery of at least 60kbpd development in two phases (without conditions from IOCs) which would have first port of call on all oil produced and would be expanded further. Prior to the signing of M.O.U, even though it had taken a year, this was seen as Uganda having commitment and capacity to manage the oil resources, one interviewee recommended this move as Uganda having good, well trained civil servants, good external support and president who is very strong and patriotic to the country.
According to Hickey et al (2015,21), the forging of the M.O.U reinforced the broader sense that key elements of the political and bureaucratic elite have been able to collectively mobilize the capacity and commitment to manage oil in the national interest though with high level of presidential control. The process further suggested a form of political settlement analysis that incorporates a focus on ideas as well as interests, governance of specific policy domains and can offer more useful and balanced insights into the governance of oil.

6.3.1 The oil refinery

The Ugandan government opted for the development of the refinery and the crude oil export pipeline because; objective four of the national oil and gas policy (2008) is to promote valuable utilization of the country’s oil and gas resources. Therefore the government through the feasibility study on in-country refinery carried out in 2010 by the Norwegian consultancy agency Foster Wheeler together with Gaffney cline recommended that development of the refinery in Uganda was the most economic and more profitable option for the utilization of Uganda’s crude oil (Norwegian Petroleum Directorate 2011).

The refinery will be built in Kabaale parish in Buseruka sub-county Hoima district in western Uganda with an estimated cost of USD 3.5billions. This is because of its centrality in relation to the Albertine Graben, proximity to the oil fields, and sparse population with relatively flat terrain. The refinery will be built on a private –public partnership with the private consortium owning 60% who will design, build, finance and operate the project and the Ugandan government 40% which will be shared by the East African countries. The project components are; a 60,000 barrels per day refinery, a 12inch diameter, 211km refined products pipeline from Hoima to Buloba near Kampala and a bulk storage terminal at Buloba (Dr. Isabalija, 2017).

The refinery project will be developed through a public-private partnership at 40:60 percentage. A lead investor/operator contributing 60% and the government of Uganda 40% with EAC shareholding of 8% of public shares each. The projects components are; a 60,000 barrels per day refinery, a 12inch diameter, 211km refined products pipeline from Hoima to Buloba near Kampala and a bulk storage terminal at Buloba. The president opted for the refinery as a means of avoiding the Dutch disease effects and
country’s wide project securing socio-economic transformation. The refinery would also promote value utilization of the country’s oil and gas resources, ensure security supply of petroleum products in the country, create jobs and promote industrialization. The refinery is expected to reduce on Uganda’s overreliance on foreign importation of petroleum products, help alleviate fuel shortages and facilitate regional economic growth, earn revenues to support the development of other sectors and create investment opportunities in the country (Kasita, interview).

It is expected to produce Liquefied Petroleum Gas (LPG). Diesel, petrol, kerosene, jet fuel and Heavy Fuel Oil (HFO). Since 2012, there has been increased demand for petroleum products which implies readily available market for the domestic industry. Thus refinery will ensure security of supply of the petroleum products to Uganda. In addition it will create jobs for Ugandans, promote industrialization while saving foreign exchange which would have been used to import petroleum products. Other target primary market is the east African region which include Rwanda, Burundi, Eastern DRC, South Sudan and secondary market such as Western Kenya and Northern Tanzania. On the other hand the crude oil pipeline will provide an alternative outlet for produced oil to ensure return on investment for the licenses and government. In this case the Hoima (Uganda) - Tanga (Tanzania) route was selected as more secure at a cheaper cost and at lower tariff.

After numerous disagreements and negotiations, in 2015 RT Global resources from Russia was selected the best bidder to carry out the refinery construction works. Uganda was to retain 40% stake in the refinery and was to be expected to be completed in 2020. However these plans were halted when RT Global resources pulled out after giving new unfavorable conditions. This led to restructuring of the refinery project for a new developer. By February 8, 2018, America’s General Electric (GE) and Italy’s Saipem were likely to build the oil refinery. GE and Saipem joined hands with Intra-Continental Assets Holdings (IA), a Mauritius based private equity fund and Yaatra Ventures LLC which is based in Washington DC. Now the Graben refinery consortium is made of GE Oil And Gas, Yaatra And Ventures LLC Intra Continental Assets Holding Limited and Saipem SAP for financing and construction and signing of the agreement is expected in next two months (Uganda business news, 2018).
Resources led Uganda to suffer a setback in its efforts to secure a lead investor for the refinery project.

6.4 Summary

The chapter has presented the regulatory framework in Uganda’s oil and gas industry. To answer the first research question. After the discovery of oil, legal and regulatory framework was developed to manage the resource in sustainable manner. The chapter presents how these institutions have been developed with new policies and supplementing on the existing one with assistance from OFD programme. The president plays a vital role in decision making in exploitation plans. He successfully negotiated after a series of disagreements with the oil companies to have a refinery built in the country after a feasibility study done by foster wheeler a Norwegian consultancy agency.
7 Politics of patronage in Uganda’s oil

7.1 Presidential control

The Ugandan political system can be described as neo-patrimonial or semi authoritarian, a system organized around and fully dependent on decisions by the president and executed by his patronage network. The president has involved the military in oil governance and deployed military within the oil producing regions. There were no discussions of oil in the cabinet until 2010, however the military high command was already consulted and briefed throughout the process and had access to the first-round PSAs (Production-Sharing Agreements) long before the parliament knew about it (Hickey et al 2015, 12).

There is also a special oil protection unit acting as a political and intelligence unit as well as security arm in the oil region which is said to be led by the president’s son. In one interviewee revealed that local councilors and their movements are monitored at every level and their involvement in oil issues including who is talking to who, like which CSOs or those doing research on oil. (Veit et al 2011).

The roots of patronage politics are traced back to Museveni’s ideas of political stabilization and transforming the country into a development state and has been widely supported by western donors and the flows of foreign aid have sustained the patronage network since the mid-1990s. Although Patronage network stabilizes the political regime and provides partial social balance, it simultaneously promotes inefficiency and lack of transparency in oil related areas of governance. Uganda has lost its status as the growing development success story of the 1990s and desired good governance foundation as of the recent years the management of the country’s natural resources base appear shaggy than any other African country (Polus and Wojciech 2016, 88).

The regulatory framework is centralized by president Museveni and government holds a hard position on regulatory issues in the country. The opaque control over the oil industry by international advisors has played a divisive role across government and society (Patey, 2015, 24). This Museveni growing tendency to micromanage presents a
concerning political risk for international oil companies and leads to further delays in the industry’s development. In line with centralizing political authority, president Museveni has been adamant that he will maintain firm control over the oil industry and always have the last word that no agreement can be signed without his approval (Patey, 2015, 26). This means that all government bodies and laws do not have political space to function independently thus delaying key investments.

President Museveni been criticized over the way in which he has attempted to centralize decision making in relation to Uganda’s nascent oil industry and over his autocratic handling of oil issues and the secrecy with which he and his inner circle have surrounded their dealings. The L. Albert licenses took the form of production sharing Agreements (PSAs) which became the legal instrument of choice for almost all the oil explorations in the recent decade, however they theoretically leave the oil itself in the hands of the state and thus shield a sitting government from charges of “mishandling the nation’s resources” while at the same time allowing the foreign company to develop the assets. Considerable consternation arose when it began to emerge that Museveni had negotiated the original L. Albert PSAs more or less on his own with hidden clauses (Vokes 2012, 308).

More criticisms have been attached to Museveni subsequent attempts to develop a new regulatory framework, which are seen as lacking transparency and granting too much power to the president and his “inner circle” of senior officials. In 2010, Museveni released a draft of the first proposed new bills (the petroleum exploration, development, production and production value addition) bill which was in conflict with the NOGP of 2008. The draft is said to have granted the energy minister almost total control over the entire sector amongst other things she/he would have full discretion over all licensing issues with no independent petroleum authority to oversee his/her activities (Vokes 2012, 309). In addition, it allows key elements of the industry to remain secret for instance the new law would not even require mining companies to declare quantities of oil being extracted (Veit et al 2011).

Museveni also militarized the oil fields in mid-2007 shortly after Heritage and Tullow’s success, began a series of cross-border war broke out between Uganda and Congolese troops in and around the L. Albert which reflected a disagreement on the exact position of the border running through the lake and therefore both parties felt necessary in the
context of oil discoveries to claim it through force which led to death of a British engineer working for Heritage and other Ugandan civilians (Willis, 2007). Since 2010, it was announced that overall security for the oil production areas would be provided by Special Forces group headed by the president’s son Lt. Col Kainerugaba Muhoozi to control access to surrounding areas and populations and new “special permits” required by anyone wishing to conduct research near the oil sites (Veit et al., 2011). According to Global Witness 2010, certain wells are guarded by a private security company in which Museveni’s brother General Salim Saleh is a major shareholder.
7.2 Battle over Regional pipeline

Regional politics are central to the monetization of Uganda’s oil industry which must be the two presidents compromising on domestic political goals of each country to establish regional regulatory measures such as financing and security for the pipeline that allow its construction and stable operation (Patey 2015,25). President Museveni
was fearful of having ties with Nairobi following the political situation in 2007/08 post-election violence in Kenya that shut Uganda from key imports from the Kenyan coast and wanted cooperation between Tanzania about the export pipeline to the coast (Patey 2015, 30).

The EAC a regional intergovernmental organization comprising of Burundi, Kenya, Rwanda, Tanzania and Uganda had for decades flirted with the development of a large scale regional infrastructure, however due to the discovery of oil in Uganda and Kenya, infrastructural plans were reignited but excluding Tanzania. In August 2015, President Kenyatta and Museveni signed an agreement designating the pipeline to take a northern route from L. Albert to Turkana and onwards to Lamu instead of an alternative southern route running through Nairobi and ending in Mombasa. However, the Ugandan communique of the agreement stated the implementation of the pipeline route was pending Kenya’s guarantee of the security on its side of the route, agreement of financing the project and a transit fee no higher than alternative routes which were noticeably left out by the Kenyan “joint” communique (Patey 2015, 31).

Initially Kenya didn’t invite Uganda to participate in LAPSSET (Lamu Port-South Sudan–Ethiopia Transport Corridor) infrastructure project in 2012 until 2013 after Uhuru Kenyatta’s victory that’s when the Kenya’s oil industry, the political and economic viability of cooperation improved. Kenya and Uganda need to settle their political and security risks attached to the pipeline in order to attract funders for the project. There are also security concerns about the targeting of the pipeline by local militia as well as the regional militant group al-Shabaab particularly in Turkana, Lamu and Garissa counties (Patey 2015, 32).

Total has been instrumental in convincing Uganda to build its oil pipeline through Tanzania rather than Kenya and committed to fund part of pipeline construction, has been adamant in supporting the southern route whereby together with its partners reportedly commissioned a feasibility study of the southern route by Gulf interstate engineering an American company arguing that it cost $4.5 billion which was in contrast with the Kenyan government of $5.2 billion whose feasibility study was by inter pipeline limited a Canadian energy infrastructure company. Total has tried to convince Museveni to reject the possibility of the northern route as Tanzania could potentially offer a lower transit fee than Kenya. However due to the ties between
Kenyatta and Museveni, Museveni preferred the northern route to keep these ties (Patey 2015, 32).

The regional pipeline debate is not simply about finding the best economic route but is entrenched in domestic politics of the East African countries involved. Kenya regards the pipeline as not only for development and security but also a kick start to development of country north also act as a powerful campaigning tool in 2017 general elections. However, Uganda’s concerns remain unclear which are yet to delay Uganda’s oil much longer from hitting the international market.

7.3 **Actors and stakeholders in Uganda’s oil and gas**

Article 244 of the constitution of Uganda invests power of natural resources in the hands of the president. This means that the government works in the interest of the people. Ugandans have a lot of expectations from the resource. The government needs to work to meet the people’s expectation. Government control over the resource is vital as the country can be able to avoid petro-violence seen in other countries given the fact that the country has a strong army led by the president himself. The president has taken major decisions in all dimensions in the oil industry for instance giving contracts to investors to do business with, deciding pipeline route, and the refinery in addition to resolving disagreements among oil companies.

However, government control over the resource can cause a small trickle-down effect of revenue from oil and gas from the elites to the general population. Uganda’s historic reputation for endemic corruption makes local analysts and activists to be skeptical that everything will go smoothly about “who” is controlling the money and what will be the difference from other corruption scandals (Alstine et al 2014).

7.3.1 **Key stakeholders in Uganda’s oil and gas**

The key stakeholders in Uganda’s oil are spelt out in the National Oil and Gas Policy 2008. They include the following: i) The Central Government; ii) The Oil Exploration/Extraction Companies; iii) The District Local Governments of areas where oil has been discovered; and iv) The owners of land where oil has been discovered.
Bunyoro Kitara Kingdom is demanding recognition as one of the key stakeholders, although no law had been passed to give legal effect to the National Oil and Gas Policy.

Figure 11: Showing the network of actors and stakeholders in Uganda’s oil and gas.

Source: Alstine et al 2014

7.4 Summary

The major key actors within Uganda’s oil assemblage have been presented in this chapter comprising of the president and some military leaders, various government agencies, international oil companies, international donor’s agencies, parliament and civil society. The president plays the key role in all dimensions of oil governance from identifying suitable partners to work with and negotiating contracts with them to setting out a strategy for distributing oil revenues. The politics between the three east African presidents on the regional pipeline has delayed the development pace. In a nutshell, the chapter has presented how Uganda’s president Museveni is part and partial of all the dimensions in the oil industry and supported by his patronage network. On one hand this sees the president managing the oil resource in the national interest and on the other hand strengthening his regime in power calling the natural resource “his oil”.

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8 Discussions and findings

8.1 The Norwegian experience/model

The Norwegian example shows that a well-managed oil sector and properly structured revenue management scheme can substantially contribute to a country’s development. However, implementing this model requires well-established institutions, competent civil servants and adequate level of institutional capacity which may be lacking in Uganda. As the country moves from the exploration to production phase in the petroleum sector, different skills are required such as oil revenue stream management, knowledge of the down and mid-stream industry, applicable taxes and other fees collected from oil. Unfortunately, Uganda has not yet educated its own experts in that field which calls for Norwegian assistance (Polus and Tycholiz 2017, 11).

One of the crucial part of the experience from Norway is the centrality of good quality, honest and efficient institutions, which can be achieved through capacity building to develop both the skills and efficiency of officials in implementing agencies and personnel in independent institutions overseeing responsibilities. These include NGOs enacting transparency and accountability standards and signing up to international initiatives such as EITI (Havro and Santiso 2008, 21). The Norwegian experience suggest directions for international development policy of technical building, institutional and governance strengthening and improved business relations to resource rich countries. Rather than financial inflows which aren’t primarily further needed since they are already present through the natural resource revenue, but rather opt for advice on how to build institutions which can manage these inflows (Havro and Santiso 2008, 22).

OOFD is directly based on Norwegian experiences from its oil sector as it’s always cited in a resource curse literature as a good example which turned oil resources into blessings. The Norwegian oil policy has been regarded by many scholars (Mehlum et al 2006, Havro and Santiso 2008, Terry and Gary 2003) as the only successful example where the country after discovering oil has built a competent national oil industry. Through my research, OOFD is viewed as supposed to teach developing countries “the Norwegian experience” where the state control over and development of the national oil
industry and use the revenues to finance the welfare state are key elements (Solli 2011, 71). Through my interviews, the Ugandan official view OFD as the role model where a lot can be learnt in regards to skills and capacity development in oil management. According to Heglund (interview) the Norwegian experience plays rather ambivalent role being perceived success of Norway’s oil management as a reason for the programme’s popularity among recipient countries.

The Norwegian experience appears as an overall success in the sense that many of the initial intentions were successful (Ryggvik 2010, 111. Through Statoil strategic state ownership of a strong professional institution “the petroleum directorate” and above all through the continual buildup of technological know-how, the country has managed to ensure that most of the economic rent from oil has gone to the state and hence society. He further noted that one central lesson from the Norwegian experience is the importance of the society determination to secure its own power and position and notes that there is no single “Norwegian experience”. The Norwegian experience is rather a product of active democracy, the greater degree of openness and general popular oversight of political priorities and decisive technological choices, the better a society will be able to manage a strategic energy resource in a way benefiting the society, Ryggvik (2010,113).

However according to (Havro and Santiso 2008, 21), the state ownership and involvement in the industry as seen in Norway is unlikely to be a good solution in states with poorer institutions. This is because at most it could create major inefficiencies because of the poor capacity of institutions and at worst it could facilitate corrupt practices as it would allow state officials to make discretionary decisions without needing to account for them. However, this doesn’t mean that there is no role for the government.

The Norwegian experience in oil sector management can serve as an inspiration and lesson to be learnt for Uganda. However, policies and procedures used in Norway is no guarantee that can work in Uganda since the economic, political and institutional structure are characterized by a patronage system which is not compatible to a democratic Norwegian system. Unless there is political willingness, institutional capacity, transparency and accountability within the Ugandan government in petroleum management, the resource curse can be avoided.
8.2 Institutions and policies

OFD officials believe that a legitimate and accountable management of the petroleum sector and high-quality institutions are necessary for a resource-dependent country to achieve sustainable development. I believe Uganda has well laid out legal system and legal framework, well stipulated laws including environmental laws and clauses in major related bills, EIA requirements and National Oil and Gas policy, regulating the oil sector. However, these are better stipulated on paper than in practice.

Uganda is driven by opposing forces of corruption which is supported by the patronage nature of politics. This has created ineffectiveness in policy implementation and lack of transparency and accountability in oil-related areas of governance. Norway has a high degree of transparency which has been maintained through a democratic tradition where the petroleum sector is held accountable to the public. However, in Uganda oil matters and information are regarded as secretive and not much information is available to the public. In my quest to get information, most respondents’ response was whether the information I was looking for was not “sensitive”. The problem of lack of accountability and transparency could be as a result of a weak legal system.

The OFD officials are positive that the OFD programme will help Uganda avoid the resource curse and benefit from its oil resources. Although they are aware of working in a country where corruption is an opposing force. It is however worrying to so many Ugandans since the country tops among the corrupt countries in the regions in the Transparency International East African Bribery Index, and ranks 142 worldwide. The country is amongst the world’s largest aid recipient and most of the money from donors has been swindled and embezzled. “If the country can hardly account for donor aid, it’s worrying and there is no assurance that it shall manage trillions of oil revenues” (anonymous interview). Nevertheless, Uganda has relatively high-quality laws and regulations which needs to be put in practice. The country can gain much from the Norwegian oil for development and experience by developing a sound legal system that safeguards the national interests as well as join the EITI to ensure accountability and transparency in the industry.
Uganda has policies with institutions stipulated in the 2008 Oil and Gas Policy, however there are still questions about the dangers of resource extraction in the absence of accountability and transparency system with weak regulative framework. The act does not create necessary framework for transparency in the petroleum sector; clauses on the availability of information are inadequate containing confidential clauses, leaving scope for unnecessary secrecy and doesn’t cover financial transparency relating to the sector. Section 151, 152 and 152 of the PEDP act 2013 states that all data submitted to the minister by a license shall be kept confidential and not to be disclosed to the third party, prohibition against disclosure of information. This limits the public to know how much oil will be extracted and difficult to determine how much revenue the government should be receiving from each company as well as difficult to follow money and avoid corruption scandals.

“if citizens do not know why particular companies have been awarded natural resource licenses, it can lead to suspicious of wrong doing” anonymous interview.

General secrecy is one of the major concerns in the oil industry in the country; to date very little information regarding details of any agreements between government and oil companies including licenses and any other arrangement have been disclosed and few people are willingly to talk about oil matters without anonymity. The preface that data will only be shared if it is not considered confidential remains problematic, and defining what constitutes confidentiality and who decides what is confident is or what isn’t could be presumed to be the minister responsible and the executive. However, the minister is appointed by the government and in any case works in the interest and in accordance to the president.

The upstream law does state the intention to establish an open transparent and competitive process for licensing of petroleum activities but doesn’t spell out exactly what the process will be like and fails to guarantee adequate transparency to safeguard the process. Without transparent allocation mechanisms, licenses are awarded on a preferential basis to bidders favored by the public officials or the ruling elite rather than the interest of the whole country, no competitive bidding round is held and companies appear to have received their rights from government through direct negotiations or third parties (anonymous interview).
The power vested in the minister are arguably far reaching; section 8 of the PEDP Act 2013 spells out the minister’s power to include issuing of licenses, drafting legislation and developing regulations which gives the minister of energy unlimited powers to negotiate, grant and revoke oil licenses. However, clause 18.2 of PEDP act 2013 provides a positive sign, although the clause gives the minister the powers to appoint all the board of directors for regulatory authority, as it stands out all appointments must be approved by the entire cabinet.

The upstream law provides for an objection procedure to a ministerial decision to open up new areas for exploration but doesn’t provide for an effective consultation process with limited scope for public consultation on allocation decisions. Section 53(2) spells out exceptional circumstances under which consultation with authority. Members of parliament too still believe oil and gas sector is still engrossed in a culture of secrecy which presents a government challenge to the sector.

“Whereas a number of efforts have been undertaken by government such as the development of a strong policy, legal and institutional framework, it is still difficult even for parliament to access information which is pertinent to fostering the much-required transparency and accountability in the management of the sector.” Theodore Ssekikubo (Odyek, 2016).

With well-defined roles and responsibilities for every stakeholder, the 2013 Petroleum Acts provide framework for the implementation of the NOGP. However the delayed enactment of these laws impacted on Uganda’s progress in oil and gas as the country could not move forward without a legal framework. According to Bategeeka (2013) the delay allowed Uganda to understand the oil and gas industry by trying to avoid mistakes that other oil-rich African countries have made. For instance that operating outside the law would raise issues of accountability and transparency in the industry.
8.3 The slow pace of oil and gas development

The pace of oil and gas development in Uganda is seen as very slow and dragging, usually comparison was with Ghana. This is because both countries discovered oil in the same period 2006 and 2007 respectively but Ghana started commercial production and benefiting from its resources which is not the case in Uganda. Ghana discovered oil and gas in 2007 and by 2011 production had started. In Uganda oil and gas was discovered in 2006 and production is expected to start in 2021. Which creates a big gap between the two and keep people wondering what is not being done or whether they will really benefit from the resource.

It should be noted however, that before commercial production begins there are pillars which must be in place such as human resource capacity that rival international standards, relevant institutions and legislation to guide industry activities, in addition to infrastructures. All these were lacking in Uganda by the time oil was discovered though the country has moved several steps forward in all the pillars. Uganda’s oil is onshore which comes with challenges such as need for infrastructure (pipeline) to transport crude oil from landlocked Uganda to the coast, land rights which needs compensation and settlement of the local communities. Further still the oil reserves are located within the areas of the national parks and game reserves (figure 2) which comes with environmental issues and preservation.

The activities that should lead to delivery of crude oil into a local refinery as well as export tankers have dragged. The final investment decision was made on the development plan for the entire Albert basin in the 4th quarter of 2017. The first uptake of oil is expected by early 2021. As a 1,444km pipeline is to be constructed, 500 wells were estimated to be drilled in the following 3-5 years, in addition two central processing facilities would be installed and maintained, in-field (feeder) pipelines would have to be constructed, further still it was expected that oilfield crude storage tanks/facilities, waste management and treatment and logistical services would be put in place. (Kasita, interview).

The disagreements among the oil companies cannot be left out in delaying the production process as the companies are after gaining quick profits than developing the
country oil sector. Since the discovery of commercial viable oil in 2006, many oil companies have come up and back out after getting licenses by selling them to other oil companies. For instance all the first oil companies in the first phase of exploration backed out such as Alpha and heritage these sold their shares to TULLOW which has also backed out and sold its shares to TOTAL and CNOOC as the country is entering the production stage.

In February 2014 the Ugandan government together with its upstream partners (TULLOW, CNOOC and TOTAL) Memorandum of Understanding (M.o.U) which sharpened the disagreements between the two parties over the exploitation and development of the oil resources. Oil companies preferred to build a pipeline for the transportation of crude oil to the Kenyan coast. The oil companies argue that the refinery is too expensive and opt for crude oil export pipeline. However, the government argue that the refinery would yield higher revenue and also support the development of petro-chemical industries locally and also supply oil needs to the local transport. The Ugandan government has always insisted on constructing a refinery in the Albertine Graben. I argue that that such disagreements are central to the slow development of the Ugandan oil industry. Oil companies focus on profit maximization for their own companies and economic development also so salient associated with Foreign Direct Investment is pushed to the background.

On the other hand, Uganda’s pace of oil and gas development is not slow but rather a good one. This is because for every step in the process something new is learnt that helps to optimize future production and for every discovery there is potential to discover even more accumulations. Many sub Saharan oil rich countries such as Nigerian have learnt the hard way from their mistakes in the early stages of extraction. Uganda is fortunate to be relatively late to discover oil such that it has many best and worst practices to learn from its counter countries.

I argue that before one focuses on Uganda’s oil and gas development pace, a few questions have to be put in mind; does Uganda have the distribution network for the oil and well infrastructure to the wells? Has the country got the manpower and skills or they are going to be employing foreign experts throughout the all process? Does the country has sufficient storage for the crude oil in case it produces quicker than it can deliver to the refinery and how it is going to be regulated? The country can decide to
first prepare its capacity and capabilities so that it doesn’t make the mistakes most resource- Rich Sub Saharan countries made.

From a practical view point, extracting Uganda’s oil seem much harder than the other East African countries of Kenya and Tanzania. Uganda has onshore oil and it’s a land locked country, which comes with consequences of infrastructural development as well as land issues including compensation and resettlement. Thus infrastructural investments have to be in place for storage and also transport the oil to the coast. The most time- consuming investments are said to be the pipeline and refinery construction. This is worsened by the fact that the oil reserves are located in game parks including Queen Elizabeth national park and Murchison fall Game Park which creates a big environmental challenge.

8.3.1 The regional pipeline

In order to deliver crude oil, a 1445km (898 miles) pipeline running from the Albertine Graben to the Indian Ocean has to be heated. This will transport oil from the remote district of Hoima (western Uganda). This highly demanding engineering project is expected to be the longest of its kind in the world. The pipeline will be owned by the three upstream partners (Total, CNOOC and Tullow oil) plus Uganda National Oil Company and Tanzania Petroleum Development Corporation. Technically it can be done but doing it in East Africa at that length seems to be a challenge not only with managerial capacity but also in the topography of the region.

The pipeline could have gone to shorter routes (900km) to Kenya but due to politics of the two countries, Uganda opted for Tanzania. It is expected to be completed in three years and be done by 2020 and Uganda’s first oil is expected 2021. However, the Tanzania president believes it can be done quickly than three years. “We don’t need to delay the completion of the project for almost three years. They can do it even night and day to ensure the project is completed as quickly as possible. Act with big speed and make sure you finish this project before 2020” said Magufuli, the Tanzania president. First, this is an ambitious project to be completed before three years which was supposed to start in August 2016 and later postponed to January 2018 (Mugerwa 2016) and second comes with land rights which needs compensation and settlement of the local communities.
The regional politics are central to monetarization of Uganda’s oil industry and the president had to decide which route the pipeline should go through between Kenya and Tanzania. The debate which spanned for a year was not about finding the best economic route but was entrenched in domestic politics of the East African countries involved. This is also a partial cause on the development pace of the oil industry in the country.

8.3.2 Presidential control

The president has been able to secure contracts in the interest of the country and seen many oil companies backing out as the president stands on his words (refer chapter 5.2, pg. 63). On many occasions the president has been involved to resolve disagreements amongst oil companies for instance disagreement between TOTAL and CNOOC over who takes over TULLOW’s shares after the company backing out. (Refer chapter 3.4.1 pg. 37). Such presidential moves have been seen as the president being very strong and patriotic to the country’s interest and development. Presidential control has led to politicians and bureaucratic elites be able to collectively mobilize the capacity and commitment to manage oil in the national interest. This has also been attributed to OFD’s capacity building programme of the public officials. However oil revenues tend to maintain incumbent governments in power (Gelb and Majerowicz, 2011, 5).

Some commenters say that the president is doing it for securing his political power as he has referred oil as his oil in many of his speeches. I argue that in some instances the presidential control over the oil resource is seen as delaying many development projects as nothing can be done before the approval of the president. Whether signing contracts with oil companies the president has to take part. Neither the parliament nor the ministry of energy can make major decisions without consultation from the president. This makes one to ask the role of these ministries or parliamentarians.
9 Conclusions

The overall objective of this thesis has been to explore why it has taken long to start commercial oil production in Uganda. The thesis is based on review of secondary literature supplemented by interviews carried out in Kampala, Uganda and Oslo Norway. This has been done by looking at both enabling and disabling factors including FDI, government ability and control over natural resources and the role of Norwegian Oil for Development programme in the petroleum sector.

Qualitative approach of data collection was used to answer the following research questions; (1). How has Uganda’s institutions and policies responded to the discovery of oil? (2) In what way has Uganda’s politics of patronage influenced the new petroleum sector of the country? And finally (3) what role does the Norwegian oil for development play in Uganda’s petroleum sector?

The thesis also relate to the scholarly litterateur on the resource curse, theorizing around the question why natural resource-rich countries seem unable to make use of their resources in a productive manner. It is against this background of the resource curse that the Norwegian Oil for Development programme come in to help natural resource-rich countries in strengthening the management of the petroleum sector through institutional and technical capacity for countries to overcome the resource curse. This is because Norway has presented as an example of how countries can benefit from their natural resources through proper governance of the resources.

9.1 The resource curse theory

Most scholarly literature cite the resource curse as a result of failures and inefficiencies of national economic planning and weak state institutions especially in developing countries. Weak institutions are also cited as one of the partial causes of operational constraints that worry foreign investors thus affecting FDI in the country. The resource curse literature consists of different explanations for the resource curse and how countries can overcome the curse. As presented in chapter three, different perspectives on the resource curse and the relationship between natural resource abundance and economic performance such as Marxism, public choice theory, behaviorism and
institutionalism all these put greater emphasis and attention to political variables shaping the economic outcome.

This is because political elites contribute to poor policy making and institutional deterioration either directly or indirectly by influencing policies and institutional functioning. However this literature has been criticized by some scholars such as McNeish (2010) citing that the literature blame the weak institutions but fail to take into account factors leading to the weak institutions such as different state forms excluding fragile states and countries undergoing regimes. Avoiding the resource curse would entail implementing practices of good governance as well as strengthening its institutional capacity including transparency and accountability.

9.2 Presidential power and control

As presented in chapter five and six, the key major actors within Uganda’s oil assemblage as spelt out in the National Oil and Gas Policy 2008 include the Central Government, International Oil Companies, international donor agencies, Government Agencies, Parliament, Civil Society, District Local Government where oil is discovered and Bunyoro Kitara kingdom. In the same way, Article 244 of the Ugandan constitution vests the ownership and control of mineral and petroleum resources in the hands of the government on behalf of the people. We have seen in chapter 5 and 6 that the president has taken a direct and prominent role throughout the process of exploration and other oil businesses. The president plays a crucial and key role in all dimensions of oil governance from identifying suitable partners to work with to negotiating contacts no agreement can be signed without his approval (Patey, 2015, 26). Negotiations of oil contracts have taken place at the state house and involved only powerful players and the circle of those involved narrows year after year as a result of corruption scandals involving the cabinet ministers bribing oil companies in 2013 the president sought to cut “middlemen” involved in the scandal.

“The president has taken direct and prominent role throughout the process claiming the resource as “my oil” and entrenching citizens to entrust him rather than the government institutions...” (Anonymous Interview).
9.3 Situation in Uganda

Many international oil companies had interest in the exploration and exploitation of Uganda oil resource following the discovery of commercial viable quantities of oil in 2006. A feasibility study was conducted by the Norwegian consultancy agencies, Foster Wheeler together with Gaffney Cline to assess the most viable option to add value to the oil and gas resources. The study established that the refinery was the best economic and better option for the country given its capacity, configuration, location and project cost estimates. In 2014 the government signed a memorandum of understanding with its upstream partners on commercialization plan for crude to power, establishment of the refinery and crude oil export with capacity of 30,000 barrels per day (chapter 6:3).

Many oil companies came up to invest in Uganda’s oil and gas. However despite a wide interest by investors in Uganda’s oil and gas, the country still has a lot of drawbacks which are a barrier to investment into the oil industry. For instance the remoteness of the oil fields huge investments in the infrastructure. I may argue that this reason has led to many potential investors pulling out of business after getting contracts as they are not willing to go into more additional expenses since their motive is profit maximization rather than economic development of the country.

9.4 Oil for development programme

Through OFD, Norway shares its experience in petroleum management with resource rich countries with focus on revenue, resource and environmental management. OFD follows internationally acceptable strategies of good governance including transparency and accountability as well as institutional capacity building and technical know-how. The main approach of the program is support for capacity development through institutional collaboration with partner country institutions. Since its launch in 2006 in Uganda, OFD has been successful in achieving its purpose of Strengthening the Management of Oil and Gas Sector in Uganda especially with regard to institutional, policy and legal framework and administrative functions. OFD has been able to build a stronger and competent public sector able to work in the interest of the country though transparency and accountability still lacks in these institutions. The program still faces
challenges such as corruption which delays the programme activities and working in a politically challenging context.

Can the model work in Uganda? Well, the answer to this question still remains problematic. First, Norwegian domestic and international conditions are different from most SSA countries and implementing this model requires well-established institutions, competent civil servants and adequate level of institutional capacity. However, the model is an inspiration and lesson to be learnt for Uganda, a lot has been achieved in policy and legal framework with the assistance of OFD. Ghana was the best performer in the SSA with 66/100 performing well in favorable enabling environment and revenue management practices (RGI 2017), this performance is attributed to OFD assistance in Ghana. The same strategies OFD uses in Ghana are the same in Uganda thus a creating a possibility for it to work in Uganda too.

The model can help Uganda to avoid the curse if certain conditions such as the economic, political and institutional structure are met since it has already taken important steps in preparing to manage future potential oil revenues. Norway’s experiences in managing its petroleum industry contains lessons to be learnt for instance there are institutions and policies that are transferable which have been adopted in Uganda such Petroleum Directorate, National Oil Company and the petroleum Fund as a copycat from Norwegian institutions.

9.5 Resource curse revisited

Is Uganda vulnerable to the resource curse? Uganda is not yet there, full scale production of first oil is expected in 2021 and it’s early to assess the impact of oil and gas on the economy. Nevertheless the country has been named as one of the countries struggling to adequately govern their oil and gas resources in the 2017 Resource Governance Index. Resource curse literature cite that countries that start off from weak institutional capacity and poor governance prior to the discovery of oil or large mineral resources are likely to fall victims to the curse (Gelb and Majerowicz 2011,5). Further still oil revenues are likely to exacerbate these institutional weaknesses leading to greater corruption and poor overall governance. Nevertheless with the assistance for OFD, I argue that country can be able to escape the curse.
Basing on findings, Uganda’s politics and patronage network has affected the oil and gas development pace by creating inefficiencies in policy implementation and lack of transparency and accountability in oil governances.

The disputes between these oil companies over capital gain tax have also added delay and makes the process complicated and slow. The international oil companies seem to be much interested in making profits than developing the oil industry. However, it should be noted that, although the disagreements between government and oil companies have created a slow pace of development, it also shows that the government wants to add value to its oil and gas industry and is committed to control and manage the resource in a sustainable manner and in the interest of the country. A case in point is the government’s stand on construction of the refinery and deciding on pipeline routes as the best option for the country.

On the other hand, through OFD the country has made tremendous steps in preparing to manage future potential oil revenue. Through institutional and legal framework, Uganda has well trained civil servants and good external support to manage the oil resources. Its enabling environment scored better in Resource Governance Index 2017 which included open data, political stability, control of corruption, rule of law, regulatory quality, government effectiveness and voices and accountability.

In a nutshell, my research has been on why Uganda has taken long to start commercial oil production despite over a decade of its discovery. Both the enabling and disabling factors have been discussed. However the country is in transition stages into oil production. Several factors highlighted as challenges to Uganda’s petroleum development are being solved or worked on. Infrastructural development are taking place, the refinery and pipeline investment decisions have been finalized. As anticipated the country may soon be able to have its first oil by 2021.
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Appendix 1: Interview questions to OFD official

My interview with the OFD official was to get a clear understanding of the role OFD plays in Uganda’s petroleum sector.

On Tuesday 21. March Norway arranged a Civil Society Dialogue on the achievements of Oil for Development program (OfD) in Uganda. Svein Heglund, is the senior advisory officer from Norad, responsible for OFD in Uganda, had a presentation of the background and structure of the Oil for Development programme. For my interview he just handed to me this presentation.

1. In July 2009, the Government of Uganda entered a five-year agreement with the Royal Norwegian Government’s Oil for Development Programme to support “Strengthening the Management of the Oil and Gas Sector in Uganda”. In 2012 the funding was frozen due to the corruption scandals but it was reviewed in 2014 for extension to 2017 to support the resources, environment and revenue dimensions of Uganda’s sector.

What was the background for the initiation of OFD in Uganda?

What are the main objectives of OFD in Uganda?

2. One of the major emphasis OFD resource sector is the strengthening institutional framework and key public sector.

What is your opinion on Uganda’s institution capacity and readiness to manage oil resources?

What strategies does OFD use for oil management in Uganda?

To what extent is Norway’s OFD able to influence Uganda’s oil policies?

3. Transparency and accountability is crucial in resource management however, Uganda is not a member of EITI, what is OFD’s doing to help Uganda in this area?
4. Critics of petroleum related Aid argue that focus on revenue, resource and environment management prevalent in petroleum related aid is too narrow and sector specific to address overarching problems of accountability and unfavorable incentives that are core to the resource, no systematic or standardized analysis of the political economy of the receipt countries is performed. The anti-corruption approach of the programme appears to support the civil society, however it is unclear to what extent this support is specifically about corruption since no country has been denied funding on the basis of the risk analysis. What is your opinion about this criticism?

5. “Norwegian experience” assumes that the lessons learned by Norway can be useful elsewhere in developing successful petroleum sector.

In what ways, can Uganda learn from the Norwegian experience in managing the oil resources given its patronage political system?

What obstacles does OFD have or likely to have in helping Uganda achieve this?

6. In 2015 Norway renewed its support to Uganda’s oil and gas sector by signing a new agreement worth $6.5 billion which is expected to fund activities in the petroleum industry until 2018. Does Norway’s OFD have plans of extension its cooperation after 2018 since oil production is anticipated to start 2021?

7. What is your general perception regarding the oil industry in Uganda?
Appendix 2: Interview questions in Uganda

1. Commercial viable quantities of oil were discovered in 2006. However, the first oil production is anticipated in 2021. How would you describe Uganda’s oil and gas sector development?

2. What challenges does the country have in exploiting its oil and gas resources since its discovery in 2006?

3. What is your opinion regarding Uganda’s institutional capacity in managing its oil and gas resource?

4. Critics site that the president has taken full control over all the dimensions regarding oil and gas industry from identifying the contractors to work with to making major decisions. How would you describe the presidential influence in Uganda’s oil and gas industry?

5. OFD has collaborated with Ugandan institutions since 2009 in institutional capacity development. What achievements has Uganda attained through its collaboration with OFD? What are the challenges faced?

6. What lessons can Uganda learn from the Norwegian experience in managing its oil resources?
# Appendix 3: Interviewees (face to face interviews and from online source)

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<tr>
<th>Name</th>
<th>Position</th>
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<tbody>
<tr>
<td>Svein Heglund</td>
<td>Senior Advisor NORAD/OFD (Oslo)</td>
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<tr>
<td>Honey Malinga</td>
<td>OFD Program Manager (Kampala)</td>
</tr>
<tr>
<td>Ibrahim Kasita</td>
<td>Spokesperson Ministry of Energy And Mineral Development (Kampala)</td>
</tr>
<tr>
<td>Anonymous</td>
<td>Official in Ministry Of Energy and Mineral Development (Kampala)</td>
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<tr>
<td>Andrew Mwenda</td>
<td>Journalist</td>
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<tr>
<td>Anonymous</td>
<td>CSO Activist (Kampala)</td>
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<td>Anonymous</td>
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<tr>
<td>Winne Ngabirwa</td>
<td>PWYP (Kampala) online source</td>
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<td>Dr. Durkan Clarke</td>
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