Oil Discovery in Uganda: Managing Expectations

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1. Introduction

This paper discusses the management of expectations associated with the recent discovery of commercialisable oil (and gas) in Uganda. No commercial oil was flowing at the time of research and no oil revenues are expected until after 2013. The 'early production agreement' reached between Uganda and the oil companies (particularly Tullow Oil and Gas company) prioritizes the production of 50–100 megawatts of electricity that will be added on to the national grid by the late-2009.[1] However, the additional electricity will remain below the country's requirements. Yet, Ugandans – at the national, local government and community levels – appear to be nursing high expectations (but also apprehension) related to oil discovery. For some stakeholders, Uganda is on the verge of becoming an OPEC powerhouse. For others, oil discovery is likely to be a curse rather than a blessing. The key challenge for this paper is to understand the extent to which Uganda's powers-that-be are effectively managing the positive expectations *and* the anxieties over what might go wrong.

1.1. Methodology

The information presented here is based on a critical review of published literature, Government documents and press reports. These were augmented with primary data collected via interviews with leading politicians, top bureaucrats in the Ministry of Energy, and leading researchers. Additionally, we interviewed the top officials of Bunyoro-Kitara Kingdom and Members of Parliament representing Bunyoro's four districts (that is, Hoima, Masindi, Kibaale and Buliisa). We also held focus group discussions with fishing communities in Kyehorro (where Tullow Oil & Gas Co. is undertaking oil exploration and development). We completed our fieldwork with in-depth interviews with two oil companies – Tullow Oil & Gas Co. and Heritage Oil & Gas Co.).

1.2 Organization of the Paper

The paper is organized as follows: Section 2 conceptualizes the issue of expectations management. Section 3 addresses the question of whether oil discovery will lead to economic consolidation or political rivalry. Section 4 locates the oil question in the Uganda political economy. It is noted that Uganda's macro-economy has been managed well; but it might face important challenges resulting from political fragility, inequalities, and other structural weaknesses. Section 5 discusses the socio-economic dynamics at the source of oil, particularly the expectations and demands of Bunyoro-Kitara Kingdom, the district local governments, the area Members of Parliament (MPs) and the communities around the oil wells. Section 6 builds alternative scenarios of what awaits Uganda. The paper ends with a concluding section, outlining the emerging lessons and mitigation measures.

2. Conceptualizing Expectations Management

Expectations management is one of the inescapable challenges in modern governance. Expectations can be explicit or implicit, clear or fuzzy.[2] They can be realistic or unrealistic; evidence based or opinionated. The literature identifies three major expectations management strategies –*laissez-faire*, exaggeration (or 'overselling'), and underreporting.[3]

2.1 Laissez-faire strategy

This strategy involves granting citizens the right to think, say or publish whatever they wish. In a technical field, such as oil exploration, the 'popular' cum journalistic views that are associated with a laissez-faire strategy are largely inaccurate (as in the claim by the Ugandan press that oil discovery in Hoima has resulted in 'land grabbing' by top army generals). This inaccuracy is largely attributed to the weak flow of information from government to the citizens; from technocrats to politicians; and from knowledgeable civil servants (who are, by tradition 'tight-lipped') to the journalists. Uganda's politicians and technocrats need to know that an information vacuum will certainly get filled with something.

2.2 Exaggeration

Also known as 'overselling', this strategy is largely used by populist politicians. Their aim is to mobilize political support, get elected and/or survive in political office. The risk lies in raising unrealistic expectations – such as the possibility of using oil revenues as a substitute for graduated tax.

2.3 Under reporting

This is commonly used in advanced democracies where empty political promises are punishable via political withdrawal of votes. Underreporting or what Lindstadt and Staton (2007: 2) call the 'downward management of expectations,' involves mobilizing public support for the system while, at the same time, communicating the complexities or challenges at hand. It requires political skills that involve raising 'conscious optimism' to avoid unmet expectations. Unmet expectations could trigger massive withdrawal of support and create doubts about the competency or honesty of the political leadership. According to Lindstadt and Staton (2007: 2), the downward management of expectations is possible or even profitable. ‘By setting expectations low enough, officials can protect themselves against unanticipated failures and take advantage of unexpected successes.’ Indeed, managers of expectations may wish to learn from military strategists who typically plan for the ‘worst case scenario.’

2.4 Positive and Negative Expectations

People’s expectations exist in two distinctive forms – the positive and the negative. In the case of oil discovery, the positive expectations are really hopes that the precious resource and the associated ‘windfall’ revenues will deliver substantial social, economic and infrastructural improvements. In the case of Uganda, some national level actors claim that the country is on the verge of attaining economic sovereignty. Oil revenues will arguably finance a larger proportion of the national budget, liberate Uganda from donor-dependence and boost investments in developmental infrastructure (such as roads, power plants, education and health infrastructure). At the local government (LG) level, oil is expected to boost LG finances and reposition local governments as key agents of local economic development. At the community level, Bunyoro Kingdom officials and local communities have expressed hope that oil revenues will result in a better road and railway network, high quality education and healthcare, a regional technical and university infrastructure, and considerable employment opportunities.

However, negative expectations also abound. Conceptually, resource abundance is a double-edged sword. While oil discovery, for example, presents considerable opportunities for low income countries (like Uganda) to deepen domestic revenues and grow, resource abundance carries an important risk – the so-called natural resource curse.

2.5 Understanding the Resource-Curse

In simple terms, the resource ‘curse’ is a situation whereby abundance of tradable natural resources (such as diamonds, gold or oil) paradoxically leads to economic stagnation, the death of other traditional and non-traditional exports such as agricultural and manufactured products, and conflicts over the allocation of resources.

The resource curse is associated with eight distinctive problems. First is the national risk of entrenching a primary commodity economy that is dependent on God-given (or ‘natural’) advantages. Yet, globalization not only spells doom for economies that are ‘stuck in the Garden of Eden’[4]: it calls for the structural transformation of the national economy into a high value-added industrial and information economy. Second is the problem of repositioning government as the key driver of growth (to the detriment of the private sector). Third, is the erosion of citizens' duties and obligations such as payment of graduated tax (because government is expected to use 'windfall' revenues to finance public services). Fourth is the problem of political instability (a la Nigeria, Sierra Leone or Angola). Fifth is the problem of 'leakages' or corruption, which is common in resource rich countries (such as Nigeria) that have weak institutions of governance. Sixth is the risk of entrenching authoritarian rule or unaccountable governance.[5] Seventh is the risk posed by oil-related activities to people's health and, in particular, the possible negative effects of oil spills on fisheries and the environment. And eighth is the problem of exaggerated expectations. Knowledge of large revenues typically puts pressure on governments to spend. If this happens, fiscal discipline is breached to the detriment of long-term economic management.

In the light of these challenges, it is worth investigating whether the discovery of commercialisable oil will lead to economic consolidation or political violence.

3. Economic Consolidation or Political Rivalry?

3.1 The Economic and the Political Science Views of the Resource-Curse

As already hinted, an influential view in the literature is the 'resource curse' proposition, which is, in essence, a critique of the comparative advantage theory of Adam Smith and David Ricardo. Two variants of the resource-curse hypothesis exist – the economic and the political[6]. The former is couched in the language of 'rent-seeking'; while the latter revolves around the 'rentier state model.' The economic argument is that oil abundance (in developing economies) typically generates valuable rents that tend to trigger violent forms of rent-seeking – or 'greed-based'[7] insurgencies. Oil is particularly found to be relevant in secessionist wars. Oil abundance helps predict the type of war (secessionist or non-secessionist) that a resource-abundant country is likely to suffer[8].

The political science viewpoint revolves around the rentier state theory of governance and the associated level of accountability of the rulers to the citizenry[9]. The claim is that when states gain a large proportion of their revenues from external sources [such as oil exports or foreign aid], there is reduced necessity of the rulers to levy domestic taxes. Three things happen. Oil states tend to be weak states with weak domestic institutions. For one thing, oil states 'have less need to create strong bureaucracies to raise revenue'[10]. Second, resource rich states tend to have limited capacity – or will – to create strong armies. As a consequence, they tend to be vulnerable to insurgency. Third, the leaders tend to be less accountable to their citizens. This suggests that the probability of official corruption, authoritarian rule or dictatorships tends to be high in resource-rich countries (such as Nigeria, DR Congo or Sierra Leon).

The economic and the political economy perspectives of the resource curse are united by one common denominator. And that is the view that abundance of natural resources 'causes poor growth and raises the incidence, intensity and duration of conflict'[11]. This appears to critique the theory of comparative advantage. Economists inspired by Smith and Ricardo argue that resource-rich countries (such as USA or DR Congo) have an advantage over resource-poor countries (such as Japan or Mauritius). The resource-curse proposition turns this view on its head. The claim is that natural resources may be more of a curse than a blessing[12]. Some research based-evidence reveals that resource abundance begets a resource curse[13] [14].

3.2 Key Weaknesses of the Resource-Curse Argument

The resource-curse argument misses one key point, namely, that the real source of the 'curse' is *not* natural resources. It is economic *and* political mismanagement. This arises from weak state capacity to use 'windfall' revenues to build developmentalist institutions (such as roads and railways). It arises from weak domestic capacity to govern the national economy for long-term development. The 'curse' also arises from the inability to transform the national economy from primary commodity production to higher value-added industrial and information activities. Indeed, evidence shows that the link between oil and political violence is a result (*not* of resource abundance per se) but poor (read 'commodity-driven') economic growth, high corruption and authoritarianism.[15] The challenge for this paper is to understand the circumstances under which natural resource abundance produces positive as opposed to negative economic and political outcomes.

3.3 The 'Worst' and the 'Best' Performers

The abundance of oil, diamonds and metals in DR Congo, Angola, Nigeria and Sierra Leone has blocked, rather than promoted, economic transformation. Political stability has also suffered as rival claimants to the political economy have disagreed *violently* over the allocation of the abundant resources. In other words, resource abundance has been a curse rather than a blessing for these countries. By contrast, countries such as Australia, Botswana, Canada and Norway have benefited from natural resource abundance. Norway, for example, was one of the poorest countries in Europe in 1900. In the 1960s, Norway still lagged behind its Scandinavian neighbours in GDP per capita and other economic indicators. By the 1990s, Norway had overtaken Denmark and Sweden. Today, Norway is one of the world richest and well-governed countries, with some of the best human development indicators. In Africa, the case of Botswana is roughly comparable to the world's best performers (such as Norway). When Botswana obtained independence from Britain in 1966, it was the third poorest country in the world[16]. This was arguably because of *ineffective* British colonialism[17]. The country had just 12 km of paved road and two secondary schools. Only 100 Batswana had completed secondary school and only 22 had graduated from university[18]. Additionally, Botswana was a commodity (or 'cattle') economy with limited postcolonial growth prospects.

With the discovery of diamond deposits at Orapa cattle post (1967) and the subsequent opening of Juaneng diamond mines (1982), Botswana's growth prospects changed dramatically. Between 1966 and 1974, Botswana was one of the world's fastest growing economies. Real GDP growth averaged 16% between 1970 and 1974. Between 1975 and 1989, Botswana maintained its rapid growth rate. Indeed, by the 1980s, mining had taken the place of cattle as a leading economic sector. Domestic savings started to exceed investment. Government ran budget and trade surpluses. The ratio of government revenue to GDP was a superb 50% (about double the African average) and peaked at 64% in 1988[19]. In 1997, Botswana graduated into middle income economy.

Today, Botswana's GDP is over $14 billion and per capita income is $8,800. The level of infrastructural development is also high. Botswana now has 888km of railway and 10,217km of roads (with 5,619km paved and the rest unpaved). The country's socio-economic indicators are also impressive, save for the AIDs crisis[20]. Botswana has one of the highest foreign exchange reserves in the world[21]. At a time when most African countries have a huge debt burden, Botswana's foreign debt is only about 14% of GNP. The country has no internal debt and is a net exporter of capital.

How does one explain the economic record of resource-rich Norway and Botswana in comparison with resource-rich economic disasters (such as Sierra Leone)? And what lessons of good practice can Uganda draw from both effective and ineffective performers?

3.4 Why Some Gain and Others Lose: The Case of Norway

Leading researchers are increasingly adopting a new research agenda on resource endowments. The key question is no longer 'how' natural resources often harm the economy but *why* some countries gain, while others lose[22]. Why does resource abundance deliver positive developmental outcomes in some countries and economic failure in others? The answer arguably lies in cross-national differences in the quality of domestic institutions.[23] Resource-rich countries that have a malfunctioning bureaucracy and insecure property rights tend to attain lower growth outcomes and more violent conflicts than those that have high quality (Weberian) systems of public administration and predictable/reliable property rights institutions. In other words, institutions matter. When the domestic institutions are 'grabber-friendly,' the benefits of resource abundance are reaped by a few state elites in alliance with foreign (oil) companies. The nation as a whole benefits when domestic institutions are development-enhancing. This institutionalist theoretical perspective challenges the Sachs and Warner (2001) claim that institutions do not play a key role.

Norway's success is attributed to the country's ability to avoid the resource-curse to 'the initial conditions' and the institutions that were put in place[24]. By the time the extraction of oil started in the early 1970s, Norway was not just a developed economy with per capita GDP of over US$10,000 (PPP); it was (and continues to be) 'a highly egalitarian society that prides itself on being that.'[25] In other words, egalitarianism was socially embedded. Second, Norway was a mature democracy. Norwegian politicians hardly posed any risk of wasting public resources on selfish political activities (such as bribing the electorate). Third, Norway forged a tripartite social contract between capital, labour and state elites. This social contract, which is central to Scandinavian welfare capitalism, resulted in the institutionalization of equitable distribution of wealth as a societal norm. Norway's distributive justice was in turn made possible by national norms that protected citizens against the vagaries of free markets, or *de-commodification*[26]. De-commodification refers to 'the degree to which individuals, or families, can uphold a socially acceptable standard of living independently of market participation'[27]. This system enabled Norway to avoid conflicts over distribution.

When the public sentiment is one of satisfaction with and acceptance of the way society is organized, each individual feels less inclined to participate in conflicts such as strikes, sitdowns, or walk-slows. In Norway, laborers appeared content with the visible economic growth, knowing that profits would be ploughed back into growth. The perception was that resource revenues were used to the benefit of all, in investments, technological advance, and education. Laborers found support for this perception in evidence: real capital accumulated, economic growth was reported, and levels of education grew[28].

Fourth, Norway institutionalized the rule of law and developed a swift judicial system to detect, determine and deter theft of official resources by rent-seeking officials or groups. As a consequence, illegalities such as grabbing of collective wealth via corruption, theft or misreporting is relatively infrequent in Norway. Fifth, Norway developed impeccable public agencies for routine surveillance and monitoring. Sixth, transparency in public affairs was emphasized, coupled with media scrutiny. This blocked illegal rent-seeking and left open only the possibility of accessing resource-revenues through legal channels (such as lobbying Parliament for tax relief, wage increases or subsidies). Seventh, Norway created a special Petroleum Fund and accumulated reserves abroad. These, together with fiscal discipline and prudent economic management, enabled Norway to avoid the negative expectations from oil abundance.

To what extent do Uganda's 'initial conditions' (at the time of oil discovery in the 2000s) and institutional credentials approximate those of Norway in the 1970s?

3.5 The Case of Uganda

Uganda is substantially different from Norway. Where Norway was an advanced economy with per capita GDP of over $10,000 in 1970, Uganda currently has $ 1000 (PPP). Where Norway was a stable democracy at the time of oil discovery, Uganda is a fragile democracy that only reintroduced competitive party politics in 2006 after 20 years of 'no-party democracy.' Where Norway forged a social contract between the rival claimants to the political economy, Uganda has not. Norway had institutionalized a system of welfare capitalism that guaranteed peoples' right to equitable growth and to the basic necessities of life. By contrast, Uganda has institutionalized neoliberal economics characterized by rapid growth (estimated at 9.4% in 2007/08) that is nevertheless highly *inequitable*[29]. This signifies the exclusion of a substantial proportion of the people from the fruits of growth. Norway institutionalized the rule of law and minimized official corruption; Uganda suffers deep-seated official corruption (with Transparence International naming the judiciary and Police as some of the most corrupt institutions in the country). While President Museveni has recently committed himself to fighting official corruption, Uganda's corruption scandals such as the Global Fund, the GAVI Funds, the alleged looting of resources from DR Congo etc – all suggest that a lot needs to be done to prevent the grabbing of oil revenues via corrupt practices.

However, not everything is negative. Interviews with senior government officials suggest that Uganda has tried to build capacity for managing the country's emerging oil economy. A high-level interviewee in the Ministry of Energy and Mineral Development was confident about Uganda's preparedness. 'We are prepared to manage the oil economy,' he asserted. The good news for Uganda is that not all resource-rich countries suffer a resource-curse. However, as will be emphasized shortly, avoiding the curse and maximizing development dividends for the majority of the people calls for concerted efforts to tame official corruption, establish development-enhancing institutions and, in a word, 'do things differently.'

4. Oil Discovery and Uganda's Political Economy

4.1 Uganda's Economic Management and Export Performance 1986-2008:

When the National Resistance Movement (NRM) government came to power in 1986, Uganda's economy had literally collapsed. Annual headline inflation was in three digits. Market controls characterized the economy and led to inefficient allocation of resources. The Government played a big role in the economy through state-owned public enterprises that were largely inefficient. In the light of these challenges, government implemented ambitious economic and institutional reforms with a view to attaining macroeconomic stability and rapid economic growth. Between 1992 and 2007, significant improvements were registered. Real GDP on average grew by 6% per annum from 1992 to 2007. Government reduced inflation to single digits and embarked on export diversification.

Exports appear to have changed significantly. Total exports increased from US$171 million in 1992 to US$478 million in 1999, thanks, in large part, to Uganda's exchange rate policy that largely supported export orientation. The share of coffee in exports decreased from 78 % in 1992 to 67 % in 1999 and to less than 30 % in 2005. Although the structure of Uganda's exports changed from traditional *commodities* (coffee, tea, tobacco) to non-traditional *commodity* exports particularly fish, cut flowers, and maize, the country's exports largely remained primary agricultural commodities. The discovery of oil is raising new concerns over the role of low-value added commodities in Uganda's export basket. Will oil result in a shift from farming to oil production (crude oil), both of which are characterized by low value-addition? Put differently, will oil give Uganda a sense of false confidence and entrench a primary commodity economy? Or, will oil trigger a structural transformation of the economy into a manufacturer of petrochemicals and other high value-added industrial and information activities?

4.2 Poverty - the most critical development challenge facing Uganda

Notwithstanding Uganda's good economic performance at the aggregate level, the benefits of economic growth were not broad-based. At the national level, the proportion of the population living below the minimum income to meet the basic requirements decreased from 56% in 1992/93 to 38% in 2002/03 before declining further to 31.1% in 2005/06. However, a plethora of obstacles to participation by some sub-groups made them near spectators in Uganda's economic growth. At disaggregated level, it is evident from Table 1 that there has been uneven progress in poverty reduction. Some sub-regions benefitted more than others with North region lagging. In the north, income poverty remained very high at nearly 63% since 2002/03, which is two-fold of the national average.

Table 1: Trends in income poverty estimates by sub-region (%)

	1992/93			2002/03			2005/06		
Sub-region	P0	P1	P2	P0	P1	P2	P0	P1	P2
Central 1	47.8	16.3	7.7	22.0	5.7	2.1	18.8	4.0	1.4
Central 2	57.3	19.5	8.9	30.0	7.3	2.5	19.7	4.5	1.6
Kampala	14.0	3.3	1.1	4.7	0.8	0.2	4.5	0.9	0.4
East Central	55.4	21.1	10.5	43.3	13.3	5.8	32.3	7.4	2.7
Eastern	61.2	22.7	11.1	48.2	14.7	6.1	40.1	11.1	4.3
North	73.9	31.0	16.3	62.9	25.4	13.0	62.8	21.8	9.8
West Nile	72.7	28.9	14.8	63.1	19.1	8.1	54.7	17.7	7.4
Western	52.7	18.7	8.9	41.1	11.3	4.6	21.5	5.7	2.4
Southwest	49.0	16.7	7.9	29.0	7.5	2.9	18.7	4.7	1.6
Bunyoro	**68.3**	26.9	13.9	**33.5**	7.7	2.5	**25.9**	5.9	1.9
Uganda	56.4	20.9	10.3	38.8	11.9	5.1	31.1	8.7	3.5

Source: Based on the Uganda National Household Surveys of 1992/93, 2002/03 and 2005/06

Notes: i) P1 poverty headcount, P1 Poverty gap and P2 Severity of poverty

ii)The composition of the areas in table 1 are as follows:

- **Central 1** includes Kalangala, Masaka, Mpigi, Rakai, Lyantonde, Sembabule & Wakiso;
- **Central 2** includes Kayunga, Kiboga, Luwero, Nakaseke, Mubende, Mityana, Mukono & Nakasongola;
- **Kampala** includes Kampala;
- **East Central** includes Bugiri, Busia, Iganga, Namutamba, Jinja, Kamuli, Kaliro, & Mayuge;
- **Eastern** includes Kaberamaido, Kapchorwa, Bukwa, Katakwi, Amuria, Kumi, Bukedea, Mbale, Bududa, Manafwa, Pallisa, Budaka, Sironko, Soroti, Tororo, & Butaleja;
- **North** includes the sub-regions of Acholi, Lango & Karamoja;
- **West Nile** includes Adjumani, Arua, Koboko, Nyadri, Nebbi, & Yumbe;
- **Western** includes Bundibugyo, Hoima, Kabarole, Kamwenge, Kasese, Kyenjojo;
- **Southwest** includes Bushenyi, Kabale, Kanungu, Kisoro, Mbarara, Ibanda, Isingiro, Kiruhura, Ntungamo and Rukungiri; and
- **Bunyoro** includes Bullisa, Masindi, Kibaale, Hoima.

Table 1 further reveals that poverty reduction in Bunyoro sub-region (where oil has been discovered) is more impressive than other sub-regions. In 1992/93 income poverty levels in Bunyoro sub-region were comparable to those in the North and Eastern sub-regions, but this changed in the recent two decades. Bunyoro sub-region witnessed fast decrease in the level of poverty by nearly 35 percentage points between 1992/93 and 2002/03; about 8 percentage points between 2002/03 and 2005/06. The fast decline in headcount poverty in Bunyoro could be attributed to i) peace, which was restored to most part of Southern Uganda; ii) trade in timber; iv) improved telecommunication services; and iv) the introduction of high-yielding agriculture products particularly rice.[30]

Notwithstanding the recent improvements in Bunyoro's headcount poverty, the Banyoro (that is, the people of Bunyoro) still perceive themselves as one of the poorest in Uganda. They have a poor road network, no railway line at all, poor education and health services, no quality polytechnic or government-funded University, no high value-added manufacturing industries and hardly any access to electricity. Indeed, most Banyoro are small-holder peasant agriculturalists who use backward agricultural implements, particularly, hand hoes, crude pangas and hand axes as the major implements. In other words, most Banyoro live in a science and technology museum. This contrasts negatively with the precolonial situation where the people of Bunyoro-Kitara were proud cattle-keepers, traders or skilled artisans (annually producing and exporting over 1,000 iron implements in the interlacastrine region). The discovery of oil in Bunyoro has raised peoples' expectations for faster poverty reduction and the possible restoration of the glory of the Great Bunyoro-Kitara (Kingdom Interviews, June 2008).

4.3 Donor dependence and policy frameworks: will oil discovery change anything?

A major problem for Uganda is that the impressive GDP growth rates of 1992 – 2007 are associated with a significant level of donor-financing. However, the proportion of the budget funded using foreign aid is on a downward trend. It decreased from 52% in 2002/03 to 39% in 2006/08 before declining further to 28% in 2008/09[31]. The declining significance of foreign aid in the national budget demonstrates Uganda's determination to reduce donor dependence 'with or without oil revenues'[32]. An emerging issue of interest is whether or not the discovery of oil will lead to a switch from donor dependence to oil dependence?

Interviews with MoFPED officials and documentary evidence suggest that a switch from donor dependence to oil dependence is not envisaged in the medium term. The 2008/2009 – 2010/2011

Medium Term Expenditure Framework (MTEF) has not factored in any incomes from oil, suggesting that hardly any revenues are envisaged to come from oil soon. In the short- to medium term, central Government expectations from oil discovery are limited to two major things: i) the construction of a mini-refinery to generate 50-100 mega watts of thermal electricity using Heavy Oil Fuels (HOF) and ii) refining of 5,000 barrels of oil per day to produce diesel and paraffin[33]. Currently Uganda uses about 10,000 barrels of petroleum products per day suggesting that the mini refinery would cut Uganda's import bill of paraffin and diesel by 50%. In short, the discovery of oil is unlikely to impact the country's competitiveness or cause a switch from donor dependence to oil dependence in the short- to medium term.

Even in the long run, it would be foolhardy for Uganda to ignore her current traditional and non-traditional exports in preference of oil. Oil wealth should complement, not displace, other economic activities. It is on this account that spending of oil revenue should not adversely affect Uganda's traditional and non-traditional exports. Interviewees almost unanimously agreed that the expenditure of oil revenues on infrastructure development would support the traditional and non-traditional exports while at the same time helping Uganda to avoid the adverse effect of oil revenue on the exchange rate. To the extent that oil revenue will fund infrastructure development, it would complement, not displace, donor funding of infrastructure.

4.4 Recent political developments and the likely impact of oil discovery

The ruling NRM government captured power in 1986 against the backdrop of volatile politics and failed democracy in Uganda. Initially, the NRM put restrictions on political parties and co-opted a number of traditional party members into its own ranks. According to the NRM elites, the turbulent history of the country was an outcome of 'unprincipled' or even unnecessary political party competition. Political party contestation was seen as a virtue of Western industrialized societies that have distinct social classes. In the pre-industrial Ugandan context, multiparty politics was arguably an avenue for sectarian politics. To avoid this, the NRM opted for a new regime dubbed "no-party democracy". The object of this 'home-grown' species of democracy was to foster inclusive politics based on individual merit rather than membership to 'divisive' political parties[34].

Since 1986, several elections have been held. These include: i) the national and local government elections of 1989; ii) the 1990 Constituent Assembly elections that led to the preparation and promulgation of the 1995 Constitution of the Republic of Uganda; iii) national elections of 1996 and local government elections of 1997 that were held on the basis of the 1995 Constitution; iv) the 2000 referendum on the choice of a political system for Uganda; v) the 2001 national and local government elections that were held under the movement system of governance; and vi) the 2006 that were held under the multiparty system.

Critics of Uganda's movement political system contended that the NRM used the system to entrench one-party rule especially with the passage of the Movement Act in 1997, which in effect banned political parties. Even before this, critics pointed to the 1995 constitution of Uganda that was said to have entrenched the movement system of governance in Uganda's political life. It was also argued that the movement resisted internal democratization and retained an essentially military structure[35].

In response to intensifying pressure for political pluralism the NRM's National Executive Committee on December 18, 2001 appointed an *ad hoc* committee to review the matter. The Committee submitted its report in April 2002 recommending the adoption of political pluralism. The NRM welcomed and embraced political pluralism because the system would enable the party to 'purify' itself of insiders who were not fully committed to the party. Second, political liberalization would deprive critics of 'the weapon they had been using to malign the Movement accusing it of being undemocratic.' Third, the change would improve Uganda's relationship with donors. Fourth, it would be consistent with the global democratization trend. The reality however remains that Uganda is a young democracy with economic and political governance institutions that are not yet well developed.

Currently, Uganda has over 30 political parties. However, only five have elected Members of Parliament in the national assembly (NRM, FDC, DP, UPC, and JEEMA). With or without the discovery of oil, competitive politics was beginning to take shape in Uganda. There are some concerns that Uganda's democratization process could get derailed because of the discovery of oil. Skeptics point to a number of African countries that mismanaged their oil wealth and hardly registered any decreases in poverty. In the event that the democratic process does not get derailed, Uganda is likely to witness increased political competition and exaggerated promises to the electorate. It is in this light that management of expectations of the various stakeholders becomes very important.

Already, various stakeholders in Uganda's oil wealth have formed false expectations. Some Government officials say that donor dependence will end immediately; that Uganda should strengthen long term planning and avoid conditionality by the donors to which they attribute Uganda's development challenges. The electorate expects general improvement in the quality of life for all Ugandans. Communities in the areas where oil has been discovered expect their long standing poverty to become a thing of the past. Some groups in those areas are making big demands for infrastructure development and delivery of social services. There is an extent to which these expectations will shape Uganda's politics, which Government should not ignore. Some interviewees reported that the people of Bunyoro, who have been marginalized, might be forced to fight Government either politically (through denial of votes) or through armed struggle if they do not reap substantial development dividends from the oil wealth.

Some MPs from Bunyoro reported that they suspected the Executive had compromised some of their colleagues because they could not hear them make any statement on oil, which was discovered in the sub-region. Each of them thought that the other had been compromised. At the local government level, district counselors suspected that the Chairpersons of the Local Council 5 (i.e. the political head at district level) had been compromised by the Executive. These suspicions and accusations are likely to have a bearing on the grassroots, district and national politics.

By providing reliable *and* timely information, Government would go a long way in shaping public expectations. While not all information can be put to the public, some basic information dissemination/sharing is necessary to avoid false expectations and accusations. For example, Parliament has expressed concern that the Executive has kept them in the dark. The information regarding oil discovery has arguably been a 'top secret' of the Executive and top bureaucrats. It is only recently that the Executive shared some key information with the Parliamentary Committee on Natural Resources. Such suspicions are likely to have a bearing on the country's politics and stability.

4.5 Stakeholders in the National Oil and Gas Policy

The key stakeholders in Uganda's oil are spelt out in the National Oil and Gas Policy. 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. As will be discussed later, Bunyoro Kitara Kingdom is demanding recognition as one of the key stakeholders.

At the time of research, no law had been passed to give legal effect to the National Oil and Gas Policy. Interviewees reported that the oil companies had signed production sharing agreements (PSAs) with the Uganda Government. The details of the agreements are kept away from the public. However, a top civil servant reported that the PSAs are ‘Uganda-friendly.’ Another interviewee, who requested anonymity, reported that the Mining Act is likely to guide the proposed Petroleum Law and that the sharing formula is likely to be: 80% for Uganda; 17% for the oil companies and 3% for the landowners.

It is worth noting that the oil companies have established offices in Kampala with an indication that they are here for long term business. A top executive of one of the oil companies expressed satisfaction with Uganda’s business environment. The President and other top government officials are accessible to the oil companies. They are also seen by the oil companies as being supportive of business investments. Government’s commitment to contracts was also rated to be much better in Uganda than DR Congo. In view of these, the expectation of the oil companies is that investment in Uganda is worthwhile.

The DR Congo signed a joint exploration agreement with Uganda. DR Congo has expressed concern that Uganda might begin exploiting shared oil resources while DR Congo is not yet ready. Such concerns, according to technocrats in the Ministry of Energy and Mineral Development, are uncalled for because the oil basins Uganda intends to exploit are entirely inside Uganda. What is also important for this study is that such cross-border anxieties need to be managed professionally. If they are not, they could lead to armed conflict and adversely affect regional peace. DR Congo political leaders have visited Uganda and received explanation from the Ministry of Energy and Mineral Development on the facts and progress the country has made in oil exploration. The dialogue between the DR Congo and Uganda reduced the high tempers and the suspicions DR Congo had regarding the oil natural resources that are believed to be shared between Uganda DR Congo.

5. Socio-Economic Dynamics at the Source of Oil

5.1 Sources of Oil

This section briefly looks at expectations of the people in areas where oil has been discovered. So far, commercializable oil has been confirmed in Hoima and Buliisa districts (exploration area 2). Other areas with high prospects of oil include the following exploration blocks: Block 1

(Pakwach); block 3 (Kasese); block 4 (the lakes George and Edward area); and block 5 (the region near Nimule). The socio-economic dynamics covered in this section relate to the views of the people in Hoima and Buliisa districts. The section looks at expectations of the following key sections of society: i) the Bunyoro Kitara Kingdom; ii) the district authorities; iii) the communities, broken down further into fishing communities and non-fishing communities in areas where oil has been discovered, and iv) the land owners.

5.2 Expectations and Demands of the Bunyoro Kitara Kingdom

The people of Bunyoro, represented by the Bunyoro-Kitara Kingdom, are demanding a significant share of oil resources to address the high levels of poverty in their region. Kingom officials are complaining that the National Oil and Gas Policy left out the Kingdom as one of the rightful *direct* beneficiaries of the oil wealth. This is arguably an important mistake. For, the Bunyoro-Kitara Kingdom historically and culturally 'owns the land where oil has been discovered in Hoima, Kibaale, and Buliisa districts' (Interviews, June 2008). The Kingdom rejects the claim by the Uganda Wild Life Authority (UWA) of the land. For one thing, UWA is a recent creation of the Government that is deemed to be bent on denying Bunyoro its rightful claim of the oil wealth. Yet, the Kindgom has been in existence for over 1000 years. On account of land ownership and in view of its status as an institution representing the interests of all the people of Bunyoro-Kitara, the Kingdom expects to benefit *directly* from the oil wealth.

Asked why the Kingdom would want to benefit from the oil wealth, Kingdom officials pointed to the need to use the oil revenues to address the high levels of poverty that have afflicted the Kingdom since the advent of colonialism in the 1890s. Under colonial rule, Bunyoro Kitara suffered neglect. 'The colonial government marginalized us because Omukama [King] Kabalega mounted a spirited resistance against colonization and humiliation' (Interviews, June 2008). Postcolonial governments have arguably done little to address the past crimes, marginalization and humiliation of the people of Bunyoro. 'Now is the time for the Banyoro to reassert their collective and group rights. We either share the oil wealth or cause chaos'[36].

The list of immediate demands articulated by the Kingdom officials includes: i) infrastructure development (mainly tarmac roads throughout the Kingdom and a railway network); ii) education, particularly establishment of a polytechnic and a University (teaching oil-related courses among others) and other tertiary institutions, which are almost totally lacking in the Kingdom; iii) constant supply of electricity (once thermal electricity that will be generated using heavy fuel oils; iv) Jobs for the people of Bunyoro Kitara; and v) Strengthening the people's culture to mitigate the social evils (associated with migration, prostitution, HIV/AIDS etc) that may come as a result of the oil industry. The Kingdom expressed willingness to be accountable for the revenues received and to follow the guidelines that may be put in place by the central Government.

On jobs, Kingdom officials proposed that the oil companies should open liaison offices at least in Hoima to increase the flow of information and improve access of the people of Bunyoro to jobs in the oil industry. The Kingdom is calling for dialogue with the central Government. It demands recognition as a key stakeholder in the oil. The Kingdom also demands representation on the Governing Boards of the oil exploration/extraction companies (a position of Director to be occupied by a Kingdom representative) to ensure that the Kingdom is well represented when decisions that affect the people in the area are being made. Generally, Kingdom officials are very suspicious of Government on the matter of oil as the following quotations show:

The current Government that some of us fought for has not helped us – it is not ours; there is conspiracy on part of the government of the day to rob us of our wealth; there is a sinister secret plan to rob Bunyoro of its wealth[37].

Where are the brave heroes of Bunyoro? Certain government officials allege that we, the Banyoro, are cowards – should we fight to prove that we are the Abanyoro, that is, respected chiefs who have the power to fight for our rights? Should we prove that Kabalega's spirit of resistance flows in our blood? We are going to fight. Bunyoro is so poor and marginalized that even the Orukurato [Bunyoro Parliament] cannot sit for lack of money[38].

In addition to the above views, the Kingdom officials are demanding for the return to Bunyoro-Kitara of the counties that were stolen from Bunyoro and donated to Buganda Kingdom. The counties include Buwekula, Buruli, Bugerere, part of Nakaseke and Luwero; and Singo. The claim is that the oil wealth will enable Bunyoro Kingdom to look after its people, including those that were lost to the kingdom of Buganda. Kingdom officials said that Bunyoro Kitara Kingdom did not sign the 1900 Uganda Agreement. This implies that Bunyoro Kitara Kingdom was not a party to the agreement and is therefore not bound by the agreement that marginalized Bunyoro The Kingdom thinks that now is the time to resurrect the lost glory of Bunyoro Kitara.

5.3 Expectations of District Local Governments

The district local Governments observed that ever since oil was discovered, the oil prospecting/extracting companies have never established an office in the major towns in the districts, especially Hoima. The Officials conceded that they were aware of the National Oil and Gas Policy but that consultations were few and late.

The technical staff of the districts reported that development activities that the oil companies are undertaking are not discussed with district technical staff. Consequently, some of the infrastructure that the oil companies have put in place is not linked to development plans of the districts. They pointed out that it is not fair for an oil company to expect the local governments to take over the staffing of say schools and health centers that were not discussed and agreed with the district technical staff.

The technical staff reported that there is lack of transparency in oil exploration; that the corporate social responsibility of the oil companies (eg building schools or health units) focused exclusively on the people near the oil wells. Yet, oil is a resource of all the people in the oil districts and should be seen to benefit all, including those in the 'hinterlands' (of Hoima, Kibaale, Buliisa and Masidi). Regarding the mitigation of oil's adverse effects on the environment, the district technical staff reported that they are not really involved in the Environmental Impact Assessments (EIA); the EIA are a matter of formality and fail to take into consideration critical issues like catering for the water catchments areas in the hinterland. The district environment officers reported that they lacked resources to enable them to visit the oil wells and conduct regular M&E exercises including, but not limited to, ensuring that the oil companies comply with agreed environmental standards.

The district land boards of Hoima and Kibaale districts reported that there is no (illegal) land grabbing as reported in the media. On media reports that the President of Uganda has acquired land in the area where oil has been discovered, one district technical staff asserted: *"the President does not have land here, not even by proxy."* While no evidence of illegal land acquisition was obtained some respondents reported that some top army officers have acquired land using local people as agents, especially in Buliisa district.

The technical staff expressed concern that land use in the area is not being planned well. The land boards of the districts reported that they are going to gazette the area for planned urban development. Notwithstanding these views, the district technical staff was of the view that land conflicts are likely to intensify in areas where oil has been discovered. The district technical staff reported cross-border insecurity threats emanating from DR Congo. It was also reported that the fishing communities originating from DR Congo are usually very hostile to Uganda fishermen on Lake Albert.

On positive expectations, district technical officers pointed out that good management of the oil wealth is important if the resource is to lead to reduction in poverty, improvement in delivery of social service, and development of infrastructure are expected by the masses. Lack of transparency in oil exploration and extraction, and exclusion of key players including the districts could make the anticipated benefits a mirage. However, the district technical staff expects increased revenues that would accrue to the districts where oil has been discovered (generic oil sharing agreement). The increased LG revenues would enable them to upgrade the physical infrastructure (such as tarmacing all the major roads) and improve service delivery.

5.4 Expectations and Demands of Area Members of Parliament

Concern was expressed by area MPs about the secrecy surrounding oil exploitation and development. One area Member of Parliament said:

The fears of the Kingdom could be genuine. They lack sufficient information on what is happening. Even me as a Member of Parliament, I feel the same. I am worried and scared that the final oil policy and petroleum law will come up without adequate inputs from Bunyoro. If we were brought on board properly, there would be no suspicion.

The view of the Bunyoro area MPs was that suspicion is a major challenge. Each of the area MPs thought that Government had compromised the other members and probably asked them not to talk about the oil issue. However, MPs from the area expected improvement in the livelihoods of the people if oil development is handled well.

The MPs called for the establishment of a regional tier Government to enable the Kingdom to benefit from the oil royalties as an entity. The MPs said that the oil companies are ‘either proud or have gotten politics wrong. They consult with District Chairpersons but ignore the District Council or even the CAO’s office’ (Interviews, June 2008). They said that the road equipment that constructed the roads in the areas where oil has been discovered came from the district; but that it was not clear ‘under what arrangement’ this happened. Furthermore, the MPs were concerned about recruitment of technical staff by the oil companies saying that there are hardly any people from Bunyoro that are employed by the oil companies at that level. They were not happy about the behaviour of the oil companies to fly in everything from Kampala without any linkages to the local Bunyoro economy.

The Members of Parliament said that they deserve knowledge of how the oil companies are operating. They expressed concern that the employment needs of the local people were not considered. The MPs said:

We are being blamed as leaders, yet we know nothing about what is happening in our areas as regards oil. These people want to fragment us – they pick only one. There is no transparency. The oil issue should be treated as a Bunyoro issue. We shall suffer the environmental consequences as a region and not individuals. The Kingdom as an institution should be respected and used as an avenue for Bunyoro's development..

The MPs observed that public expenditure that takes place in Bunyoro is very small because of absence of national institutions (they cited a share of 1.4% for Bunyoro as compared to 6.4% for the Kigezi region). They said that there are imbalances and called upon the central Government to invest more in Bunyoro. They called upon the oil companies to exercise their social responsibility transparently by involving the MPs and the district technical staff.

The MPs said that there is lack of a comprehensive plan to sensitize the people on what they should expect. Some people are suffering anxiety that they could be displaced; that displacement of people has already started. The MPs demanded that Government should put them on board i.e. involve them in the process to ensure that the oil program gains acceptance by the local people:

Put us on board now and we see the process to the end. Even if the oil project is good, people could reject it. We expect action now – improve roads. Oil discovery is something good but if not handled well, it will end up the Nigerian style. People expect benefits but they are not seeing them. They expect participation and involvement, but they are not seeing them. We are being distanced from the oil business. There is discontent already. And if this is not managed well, explosive conflicts will emerge.

One of the MPs said that the discussion is clearly indicating loss of trust by the public in Government to deliver, because of high levels of corruption. Unless official corruption is decisively addressed, the public will remain very suspicious about how the oil revenue will be utilized.

However, one of the MPs advised that for the people to benefit from the oil revenues, they must be undertaking economic activities that will enable them to tap the money. While recognizing that there will be money for improvement of the people's welfare, the MP advised that the MPs should guide the people to manage their expectations and enable them to benefit from the oil resources. He advised that the oil companies should not take things for granted but sit and listen to people's anxieties and hopes.

5.5 Expectations and Demands of Communities Around the Oil Wells

The social responsibility actions by oil exploration/extraction companies in areas where oil has been discovered raised hope for improved livelihoods of people in those areas. The area where oil has been discovered was not accessible by road prior to the discovery of oil. As such, the price of fish was very low and incomes of the fishing communities were very low. The discovery of oil saw construction of a road to the lake through a steep escarpment. Furthermore, murram runways were constructed to enable small planes to land and take off. As such, the area was opened up for the first time and became accessible both by road and air.

Improved accessibility of the area immediately raised the price of fish and thereby increased household incomes of fishing communities. Furthermore, it led to lower prices of food (the fishing communities purchase food brought down the escarpment from the hinterland). A combination of higher incomes and lower prices of food significantly improved the welfare of fishing communities in areas where oil has been discovered. The incidence of cholera was reported to have reduced significantly. In Kyehorro fishing village, in addition to improvement of infrastructure, the oil exploration/extraction company put in place a maternity clinic, improved a primary school, and sunk some boreholes. The oil company operating in the area also mobilized the community through the LC1 Chairperson and provided manual jobs to the locals. Furthermore, security improved because of deployment of the UPDF.

The fishing community of Kyehorro fishing village accordingly welcomed the oil companies. It is noteworthy that initially the activities of the oil companies were limited to offshore and not into the lake waters on which the community depend for a living. However, with time the oil company began oil exploration in the lake waters, a thing that raised anxiety among the fishing communities. Some of the fishermen think that with time the oil companies could refuse to allow them to fish. Some have fears of being required to relocate from Kyehorro village to another place altogether; the local fishing communities are worried that the activities of the oil companies could adversely affect their livelihoods.

The local fishing communities along Lake Albert do not know the boundary of Uganda on the lake. Already, there is reported hostility between the fishermen from Uganda and those from DR Congo whenever the two meet on the lake waters. The fishing communities fear that the hostility could get worse in the long run.

On newspaper reports of land grabbing, the locals of Kyehorro village were unanimous that there is no land grabbing taking place in the area – there are no national level politicians or soldiers that have acquired land in the area. The land available for sale is little as most of the land was reported to belong to the UWA or Government. Local people sell land among themselves but there are no newcomers in the area with claim on land. However, they claimed that the area where a camp for Tullow Oil and Gas Company is located in Kyehorro was donated to the oil company by the LC 1 executive of Kyehorro village. But UWA extended its boundaries to include that area in the game reserve. The game reserve is the area on which the Bunyoro Kitara Kingdom is also claiming ownership. Generally the local communities have no interest in the off shore land – their interest is in the lake waters.

Generally the community of Kyehorro village is not aware about what the oil companies are doing. On power generation of the 50 mega watts of electricity, the community knows nothing. The Community was not involved in the drafting of the National Oil and Gas Policy.

What then, are the opportunities and challenges of oil discovery in Uganda? And how are the leading stakeholders managing the expectations (both positive and negative)?

6. Opportunities and Challenges of Oil Discovery in Uganda: Looking Ahead

This section is a synthesis of ideas from various social-groups. It speculates on what awaits Uganda following the discovery of oil and outlines the major elements of the National Oil and Gas Policy. Uganda's approach to expectations management is also documented. The section gives recommendations on what Uganda should do to meet the realistic people's expectations and manage the unrealistic expectations. The section looks at the emerging issues from three levels: i) the International level; ii) the national level; and iii) the level of source of oil or Bunyoro Kingdom.

6.1 International Level Opportunities and Challenges

The discoveries of oil in Uganda present enormous opportunities to the country at the international level. However, Uganda could miss the international level opportunities and instead be criticized for the missed opportunity. The possible international level opportunities and the possibility of missing them are as follows:

i. Uganda would be counted among the oil producing and exporting (OPEC) countries in the World. Oil producing countries that managed the natural resource well are rich. Therefore Uganda has the opportunity of being counted among the rich countries. Uganda's political class has decided not to export crude oil but add value to the crude oil by refining it before export. This suggests even higher incomes for Uganda, which would change the international perception of Uganda in the international community. The country's status would change from a Least Developed Country (LDC) to either a medium income country or even a developed country. However, depending on the way Uganda manages the oil wealth the country could miss this opportunity and be counted among resource rich but poor countries like DRC for example. To avoid missing that opportunity, the country needs to put in place strong institutions that would manage the oil wealth for the benefit of current and future generations. Unfortunately, there seems to be a rush in Uganda's case to extract the oil even before the legal and institutional framework for managing the oil wealth in a sustainable manner is in place, which could lead to Uganda missing this opportunity.
ii. With changed international status, the relationship between Uganda and the international community (including the international financial institutions) would change. With reduced dependency, the country would have greater leverage in the management of its economy. This would call for strong national capacity to manage the economy with minimal supervision and conditionality from the international community.
iii. With a changed international status, Uganda has the opportunity of changing its foreign policy to take advantage of its new status. However, there is also a possibility of Uganda mismanaging its foreign policy as the country would reduce its dependence on western countries. The expectations of Uganda's political leadership on oil discovery should be managed to ensure that it does not derail the country from a peaceful path of economic growth and/or put it on a dangerous path of violence and economic decline.
iv. Within the East African Community Uganda's status would also change positively as the country would be perceived to be strong. Uganda's economic fortune could improve the country's economy and make the country a regional hub for trade and commerce. If well managed, the oil wealth could support industrial development in Uganda, and therefore change the status of the county within the region from one that is mainly dependent on agriculture to an industrialized and rich country. However, tapping these opportunities calls for good management of the country's oil wealth.
v. Within the Great Lakes region, Uganda's status would also change. Uganda's new status as a rich country could lead to more peace in the country as neighbouring countries would fear risking attacking the country. However, cross border conflicts or threats of conflict could intensify (like was the case between Nigera and Cameroon).

6.2 National Level Opportunities and Challenges

In the long run, oil revenues are likely to begin to impact on the national budget and bring about enormous opportunities for Uganda particularly the following:

i. Improved physical infrastructure
ii. Increased social infrastructure (education, and health)
iii. Lower cost of doing business and thereby enhanced competitiveness of Uganda's exports
iv. Increased financing of social services (education, health, and water and sanitation)
v. Increased export earning.
vi. Decreased donor dependence
vii. Reduction in poverty
viii. Improvement in human development
ix. Increased household incomes as households tap benefits of oil resources through supply of goods and services.

However, the country will also face a plethora of national level challenges arising from oil revenues. Government will need to address the following likely challenges:

i. "Dutch disease" effects where oil would substitute traditional and non-traditional exports and the economy register increased output of non-tradable goods and services. An appreciating exchange rate arising from spending of oil revenues would wipe out the traditional and emerging non-tradition exports. Yet, the benefits of oil accruing to the country cannot be a direct displacement of traditional agricultural activities that have a large bearing on food security and exports. Uganda would therefore need to manage its oil revenues to avoid the phenomenon of displacement of exports by new oil exports.
ii. The risk of displacement of exports could arise not from "Dutch disease" effects but from poor guidance of farmers. Ugandans may recall that about ten years ago when the price of vanilla on the international market was high, some politicians encouraged production of vanilla with the consequence that some farmers cut down their coffee plantations and replanted the gardens with vanilla. After a short while, the international price of vanilla plummeted and it has never recovered. Households that switched from coffee production to vanilla production have suffered high levels of poverty for about a decade. The political leadership should encourage diversification of exports even when the country has high chances of increased revenue from oil wealth.
iii. Politicians in their struggle to take power through elections are likely to make lots of promises to the electorate including abolition of local service tax for example. Such promises would make households lazy and should be avoided.
iv. There is a risk of displacement of "private sector led growth" with a "public sector driven economy." Such displacement would cause households to sit back and wait for Government to deliver. There is need to clearly state the role of the state and that of the private sector to avoid false expectations by the masses. There is also need for a comprehensive investment plan for utilizing oil revenues.
v. The challenge of equitable distribution of the benefits accruing from oil. The start looks okay - that the thermal electricity that will be generated using heavy fuel oil will be put on the national grid to benefit all Ugandans that have access to electricity. The challenge is to maintain equitable distribution of such benefits arising from oil.
vi. The challenge of accountability and transparency, which could make the benefits of oil a vanishing mirage.
vii. The extent of preparedness to manage the oil revenues and ensure that current generations consider future generations in the management of the exhaustible oil resource.
viii. There is also a risk of Uganda abandoning democracy and resorting to military rule.

6.3 Opportunities and Challenges at the Source of Oil or Bunyoro Kingdom

There are good development opportunities for the area where oil has been discovered. As pointed out already, there are high expectations of significant increase in public investment in Bunyoro. Public expectations in this regard include development of infrastructure in the area, education including a national state University and other tertiary institutions, health, rail net work, and above all strengthening of the Bunyoro cultural institution (the Bunyoro Kitara Kingdom). In addition to public investments the people of Bunyoro have high expectations of jobs both in the oil industry and state jobs. There is high feeling of marginalization economically, politically, and socially that has gone on for a long period of time and left the people of Bunyoro very poor relative to well performing districts.

While Government could indeed meet most of the positive expectations it will depend mainly on the willingness of the Government to do so. Interviewees raised the following are specific issues which Government should address to ensure that oil extraction benefits all Ugandans in general and the people of Bunyoro in particular:

i. There is a high possibility of the people of Bunyoro fighting the Government in power politically or even through an armed struggle. Political opposition groups could take advantage of the frustrations of the people of Bunyoro to advance their own agenda and incite the Banyoro to deny the party in power votes or fight it militarily. However, Bunyoro's interest is more about development through increased public investment in Bunyoro and public sector employment opportunities for the Banyoro.

ii. Bunyoro's demand for all its 'Lost Counties' is something the central Government should handle decisively. The issue is a developmental one and not whether the counties belong to Buganda or Bunyoro. The constitution is clear on the matter. However, like current day Bunyoro the counties that Bunyoro is claiming from Buganda also suffer high levels of poverty partly attributed to inadequate public investment. The public infrastructure Bunyoro is demanding should therefore extend to the counties in question that are in Buganda.

iii. Land issues are very pertinent when it comes to sharing of oil royalties. Bunyoro Kitara Kingdom is demanding its land that UWA has taken over. It would be appropriate for the central Government to return the land where the oil wells are located to Bunyoro Kitara Kingdom. However, the central Government should reserve the right to determine how the Kingdom will utilize the oil royalties.

iv. Some communities, especially the Bagungu (in oil exploration area 1) are complaining of an invasion by the Baraqro. The Bagungu claim that the Baraqro displaced them from their land with a view to benefiting from oil royalties. The Bagungu feel marginalized and are likely to reject the Government in power because of the land question. Other political groups are likely to take advantage of the situation to politically fight the Government in power.

7. Conclusion

This paper has examined the management of expectations *and* the anxieties associated with oil discovery in Uganda. The interests of the central government, the local governments, the oil companies and the owners of land where oil has been discovered appear to have been adequately taken care of. Those of Bunyoro-Kitara Kingdom and the local communities have not. It is also evident that some of the anxieties (such as the marginalization of Bunyoro-Kitara) are accurate; others (eg. press reports of land grabbing) are inaccurate; while certain worries are really exaggerated (as is the claim that aid dependence will end immediately once the oil revenues begin flowing). These expectations and anxieties call for different expectations management strategies. It is important for the powers-that-be to note that the inaccuracies and the exaggerated expectations largely arise from the rather secretive and laissez faire strategy that government has apparently used to manage people's expectations or inaccurate views. No serious justification has been found for the high level of secrecy that has led to exaggerated expectations. Uganda should instead treat its people to "conscious optimism" by providing realistic information about oil exploration and extraction including the associated challenges. We therefore recommend substantial improvements in the flow of information from knowledgeable government officials to other stakeholders.

But that is not all. The people's anxieties appear to spring from the past record of corruption in public office. The high levels of corruption (as reported in the press in the case of the Global Fund saga) and the weak institutional credentials of Uganda have led some to expect that nothing will change when oil revenues begin flowing. For reasons of path dependency, a substantial section of people expects oil revenues to be swindled by a few state elites. The ball is now in government's court. We strongly recommend the development of a culture of equitable or 'shared' growth (a la Norway). Second, government needs to build institutions (eg a strong judiciary) for ensuring that oil revenues are not swindled by a few selfish state officials. Third, government needs to appreciate that oil is an exhaustible resource. There is, therefore, need to spend the oil revenues on development infrastructure that will stay long after the oil wells have dried up. Different stakeholders have put emphasis on investing in permanent roads and railways, high quality health and education services, technical training, as well as university education. Additionally, Uganda should avoid the temptation to export oil in raw form. The competitive global markets are merciless to primary commodity exporters. Uganda needs to use the oil as an opportunity for building high value-added petrochemical industries. [Fortunately, the President has asserted that Uganda will not export crude oil].

None of the above will be possible unless official corruption or incompetence is tamed and disabled. In other words, the quality of governance matters. Stakeholders within government need to ensure that the quality of governance improves. But civil society cannot fold hands and wait to lament over mismanaged oil resources. Civil society organizations and all stakeholders need to understand one thing. Power concedes nothing unless there is pressure. The people must therefore organize and demand for proper use of oil resources. This underscores the role and importance of good democratic governance that is firmly rooted in strong legal and institutional frameworks.

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Endnotes:

[1] Interviews, Tullow Oil & Gas Co.,, 6 June 2008. Also see Uganda, 2008
[2] Ojasalo, 1999.
[3] See, for example, Lindstadt and Staton, 2007: 2.
[4] Kiiza, 2006 p.8
[5] During our field interviews, anxiety was expressed over the 'secrecy' surrounding the licensing process and the signature bonuses; the level of corruption in public office; the poor quality of roads works and infrastructural investments; the degree of inclusion or exclusion of different stakeholders in oil debates; and the apparent marginalization of the communities near the oil wells.
[6] See Di John (2007)
[7] Terminology picked from Collier & Hoeffler (2004)
[8] Collier et al. (2003), p.60-61
[9] See Karl (1997)
[10] Di John (2007) p.292 and Fearon and Laitin (2003)
[11] Di John (2007) p. 961
[12] Sachs and Warner (1995) p. 2001; World Bank (c2004)
[13] In their 2004 study of 161 countries and 78 civil wars over the period 1960 – 1999, Collier and Hoeffler (2004), for example, observe that natural resource dependence – measured as a ratio of primary commodity exports to GDP – is significantly associated with the likelihood of civil wars. Three conclusions emerge from this study. Resource dependence increases the likelihood of conflict until the resource-GDP ratio is 32%; beyond this, it diminishes the probability of conflict. Second, an increase in resource dependence from zero to 32% tends to increase the likelihood of civil war from 1 percent to 22%. Third, the abundance of natural resources, particularly oil, in the export basket significantly increases the likelihood of secessionist wars.
[14] According to Ross (2004a), for example, 'there is good quantitative evidence that oil exports are significantly associated with the onset of civil wars' (quoted in Di John, 2007: 962)
[15] See for example, Ross (2004)
[16] Tregenna (2003); Kiiza, (2006b)
[17] See details in Kiiza (2006b)
[18] Acemoglu, et al, (2003), p.1
[19] Tregenna, 2003
[20] In 2001, Botswana had the highest rate of HIV infection in the world: 250,000 of its 1.6 million people were infected and 50% of the population between 25-29 years were dying of AIDS. In 2002, an ambitious campaign was launched that provides free anti-retroviral drugs to anyone who needs them. By March 2004, Botswana no longer had the highest infection rates in the world. But with 37.5% of the population infected, the country is in trouble.
[21] Jefferis and Kelly (1999), p. 212
[22] Mehlum et al 2006
[23] For a rich discussion, see, for example, Mehlum et al 2006.
[24] Larsen (2006)
[25] Larsen, 2006, page 628.
[26] Terminology picked from Esping-Andersen (1990)
[27] See Kiiza, 2006a: 271
[28] Larsen (2006), p.269
[29] Ssewanyana, 2008; MoFPED, 2008
[30] Headcount poverty is least pronounced in Kampala city where it fell from 14% in 1992/93 to 4.7% in 2002/03 and improved slightly to 4.5% in 2005/06.
[31] MoFPED Uganda Background to the Budget – various issues
[32] MoFPED Interviews, June 2008
[33] At the time of research, the construction of the mini-refinery had not yet started. Yet, the facility is supposed to be operational by 2009.
[34] See Kiiza et al., (2008) for details
[35] Mwenda, 2007
[36] Interviews, June 2008
[37] Focus Group Discussions, June 2008
[38] Focus Group Discussions, June 2008