



global witness



DONOR ENGAGEMENT IN UGANDA'S OIL AND GAS SECTOR: AN AGENDA FOR ACTION

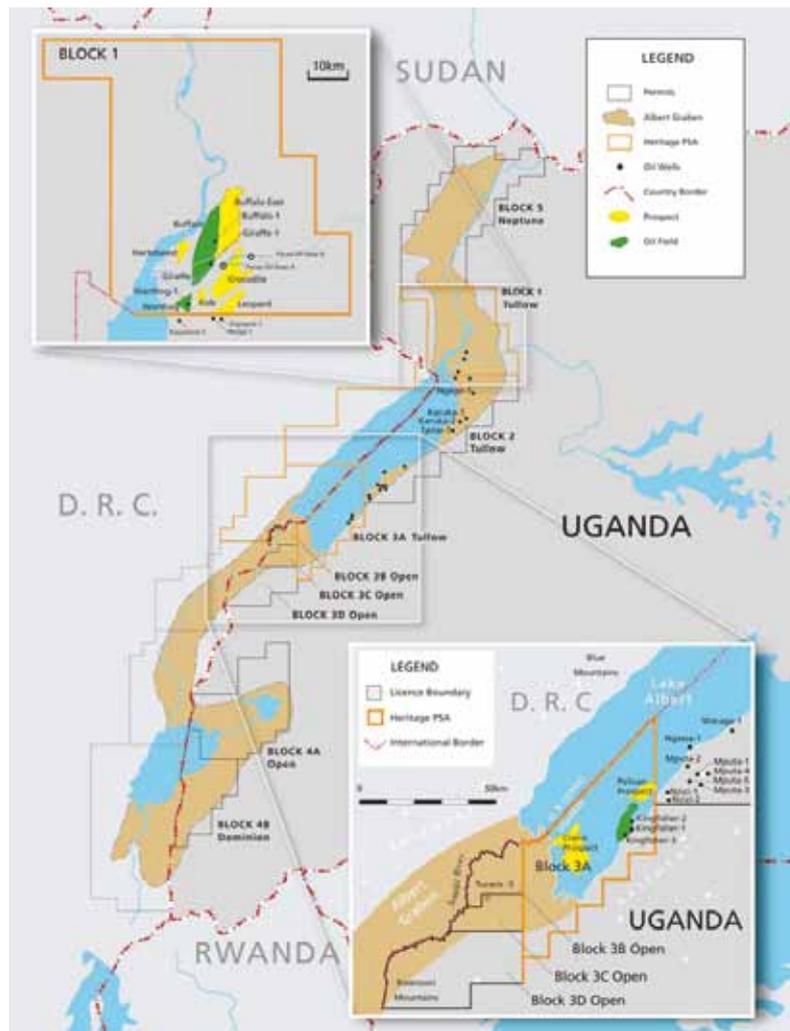
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Global Witness is a London-based non-governmental organisation that investigates and campaigns to prevent natural resource-related conflict, corruption and associated environmental and human rights abuses. We aim to improve governance, transparency and accountability in the management of the natural resource sector to ensure that revenues from resources are used for peaceful and sustainable development rather than to finance or fuel conflicts, corruption or state looting.

Globally, our investigations and campaigning have been a key catalyst in the creation of the Kimberley Process, to tackle the trade in conflict diamonds, and the Extractive Industries Transparency Initiative (EITI), to encourage transparency over payments and receipts for natural resource revenues. We were co-nominated for the Nobel Peace Prize in 2003 for our work on conflict diamonds, and were awarded the 2007 Commitment to Development *Ideas in Action* Award, sponsored jointly by Washington DC-based American Centre for Global Development and *Foreign Policy* magazine.



A map showing the status of Uganda's oil exploration licensing. Tullow has recently announced its intention to form a partnership with China National Offshore Oil Corporation (CNOOC) and Total.

GLOSSARY OF KEY TERMS

Resource curse – the phenomenon by which natural resource wealth often results in poor standards of human development, bad governance, increased corruption and sometimes conflict.

Extractive industries – for the purposes of this report, the extractive industries are defined as the oil, gas, and mining industries.

Neo-patrimonial rule – a system of government which is dominated by an individual leader whose personal authority is indistinguishable

from that of the state and in which political power is maintained through a combination of patronage and the selective use of intimidation and force.

Natural resource value-chain – a way of describing the stages by which a product is managed and its value realised. When applied to natural resources, the framework describes the steps from the licensing and extraction of natural resources, to their processing and sale, all the way through to the ultimate use of the revenues.

INTRODUCTION

“This is the reality we must face — that if the international community just keeps doing the same things the same way, we may make some modest progress here and there, but we will miss many development goals.”

Extract from US President Obama’s speech at the Millennium Development Goals Summit in New York, 22nd September 2010.

At the time of publishing this paper, the UN Millennium Development Goals (MDGs) Summit in New York had just ended. The dominant narrative to emerge from it told of the need for a renewed collective effort to achieve the MDGs: a ‘big push’. This version of events claims that the world has made good progress towards the MDGs and that, with more money from donors, companies and charities, we can and will do more.

But there was another voice to emerge from the forum – most notably from the UK and US governments – which placed a different emphasis on the issues. It called for more transparent and accountable institutions, both in developing countries and in the international development system, and identified wealth creation as the primary path out of poverty.

In the world’s poorest countries, natural resources are often the key potential drivers of this wealth creation. These countries could use the money earned from the exploitation or conservation of their resources to reduce poverty. Unfortunately, stories of successful natural resource use are hard to find in the developing world. Poor governance and widespread corruption mean that too often the wealth generated from natural assets seldom reaches government accounts. Instead, the extra money corrodes governance and encourages high-level state-looting.

The performance of the donor community in preventing this natural resource-related backslide is similarly poor. 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 healthcare. Meanwhile, resource revenues are looted, the government becomes less answerable to its citizens, and service delivery over the longer term is undermined. For fifteen years now, Global Witness has campaigned to change the attitude of donors; calling on them to link aid disbursement to performance

on basic standards of good governance, transparency and accountability in the natural resource sector.

In the past aid donors have used conditionality to impose neo-liberal economic models on countries receiving their aid. This has been widely criticised. We are not advocating a repeat of this paternalistic imposition of an economic ideology but suggesting that the donor-recipient relationship needs to be more reciprocal and that donors who are handing over millions of dollars have the right – indeed the responsibility – to ask for a certain set of standards / type of behaviour that will ensure their aid is not undermined.

Uganda is another example of a developing country with potentially transformational oil reserves, but which is, for now, utterly dependent on aid. With five to ten years before these revenues from the oil start to flow, this report uncovers a host of early warning signs. The next stages are crucial. Will aid donors keep providing more and more money in unquestioning pursuit of the MDGs, or will they link their aid to performance on building the transparency, accountability and governance standards needed to manage the forthcoming resource wealth? How the donor community engages with these questions will be a critical test of their commitment to transparency, accountability and long-term wealth creation in Uganda and will be a key indicator of the future direction of development aid.



In September 2010 world leaders gathered at the UN in New York to reaffirm their commitment to the Millennium Development Goals.

SUMMARY

Since 2008, major discoveries of oil have been made around Lake Albert in Western Uganda. So far, at least 800 million barrels of reserves have been confirmed, and the basin is now thought to hold up to two billion barrels of oil. Considerable uncertainty surrounds the figures and it is unclear at this stage how much of this oil is commercially 'recoverable' and how many barrels a day will be produced.¹ It is nonetheless apparent that oil revenue will have a significant impact on a country with an economy the size of Uganda's. According to the World Bank, it has the potential to double government revenue within 6 to 10 years and to constitute an estimated 10-15 percent of gross domestic product (GDP) at its peak.²

Enthusiasm has also been sparked by the results of a donor-sponsored mineral mapping survey which has, for the first time, charted Uganda's resource base. Beryllium, chromium, copper-cobalt, gold, iron ore, lead, limestone, lithium, marble, tin, titanium, tungsten and uranium have all been found.³ The buzz around the emerging extractive industries is reflected by the government's National Development Plan (2010/11 – 2014/15), which cites the mineral and petroleum sectors as two of the eight primary growth generators for Uganda's future.⁴

Oil and mineral production is some way off, however. While small-scale oil production is likely to start in 2011-2012, realistically Uganda will not see full-scale production until 2016 at the earliest, and will not see peak revenue income until some years after that.⁵ Uganda's mineral industry is looking at an even longer time frame. Nevertheless, these resources still have the potential to achieve the government's vision of middle-income status within 25 years.⁶ To put it another way, the next generation of Ugandans could grow up in a very different country to that of their parents and grandparents. All of which should be a cause for rejoicing; but the risk of the *resource curse* phenomenon taking hold in Uganda cannot be ignored.

Global experience demonstrates that natural resource wealth in the context of poverty and weak institutions increases the probability of corruption, patronage, instability, and conflict. Unfortunately, the current governance trend-lines in Uganda are increasingly being driven downwards by the expansion of a *neo-patrimonial regime*.⁷ Uganda has lost its status as the glowing development success

story of the 1990s, and the desired good-governance foundations for the management of Uganda's natural resource-base appear shaky.

Aside from wider governance concerns, Global Witness' research also identified a number of red-flag warning signals in the country's oil sector which should seriously worry its donors and its citizens. These are:

- Exploration and production processes running ahead of legal frameworks: the current petroleum law dates back to 1985.
- Weaknesses in the proposed petroleum legislation, including gaps in parliamentary oversight, access to information, revenue transparency and wealth sharing.
- A lack of transparency and accountability throughout the awarding of concessions, contracts and signature bonuses.
- A lack of communications to manage public anxiety and expectations.
- Personalised militarisation of the oil industry: the President's son controls the forces guarding the oil area; his brother is reported to be a major shareholder in the private security company guarding some of the sites.⁸

Uganda's donors have collectively provided more than US\$19 billion in development aid to the country over the past 25 years.⁹ Although the proportion of aid given to the government's annual budget has been declining, in 2010 pledges still amounted to 35 percent of the total.¹⁰ The advent of oil presents a challenge for the donors' development legacy. If managed well, the revenue from oil could lift Uganda from one of the world's poorest countries to middle-income status. If managed poorly, and the country is plunged into the *resource curse* scenario, the impact across all development indices will be negative and the country's ability to meet its own poverty reduction strategy and stability will be undermined.

Donors therefore have a big stake in ensuring that the resource wealth about to come on tap is used for developmental purposes. Yet, since it first became known that Uganda has commercially viable reserves of oil to tap,¹¹ the collective donor approach has been lacking in urgency. Over the course of meetings with Uganda's donors in June 2010, it became clear that the outlooks fall broadly into three camps.

The first camp sees oil as a distant prospect – too far removed to be of direct concern until the revenues begin to flow. The second believes that their impact is now limited because the prospect of oil wealth has already fundamentally undermined their influence. The third camp, who do not have programmes in the oil and gas sector, believe they have limited concern over the outcomes.

At a programmatic level, Uganda’s donors are engaging in the oil sector according to their strengths and expertise; but this is being done on an individual, not collective, basis. Norway is the lead Development Partner in the petroleum sector, with a three-year, US\$15 million programme which began in June 2009. The IMF is providing support on petroleum revenue management; the AfDB is providing support on infrastructure; Ireland is considering ways in which it can support civil society in Uganda to work in the sector; DFID is already funding some groups and is exploring other ways to support civil society; and the World Bank is helping with environmental regulations and discussing a possible Petroleum Sector Support Project for 2012 with the government. When Global Witness met with a selection of donors in June 2010, none had considered co-ordinating a joint approach through the country’s budget support programme. The draft Joint Performance Assessment Framework, dated July 5th 2010, does briefly mention oil, but only in reference to revenue accounting. Researchers were told in meetings that oil issues had not yet been discussed at the Ambassadorial level with President Museveni.¹² While engagement should be welcomed, the lack of overall co-ordination means the programmes risk adding up to less than the sum of their parts. Given that 68 percent of aid to Uganda is currently given through the budget support programme, this is the obvious starting point for such co-ordination.

There is a narrow window of about five to ten years, before major oil revenues come online. Uganda’s donors therefore urgently need to begin working with the government to establish the kinds of checks and balances which would help to avert the *resource curse* and enable sustainable wealth creation by blocking attempts to capture the resource for personal benefit.

The paper makes the case for a more pro-active approach from the donor community and calls on it to play a greater role in strengthening governance of the emerging sector at all stages along the *value-chain* of oil production. It outlines several policies

which Uganda’s donors could adopt to prevent governance failures seen in other countries over the past decade where corruption and family rule have been dominant features. **The most significant of these is a recommendation to incorporate basic transparency and governance benchmarks for the oil and gas sector within the joint budget support framework. Disbursements of future aid should be linked to performance against these benchmarks.**

Our experience in other countries, such as Cambodia and Sudan, has taught us about the damage that an insufficiently engaged donor community can do in resource-rich, donor-dependent countries. Uganda is an opportunity to turn this record around.

A word on methodology...

Global Witness conducted research into Uganda’s emerging oil and gas sector between June and August 2010. During this time, researchers visited Uganda and held meetings with key opinion and decision makers in government, military, development aid, business, parliament, civil society and media circles, as well as communities living in the country’s oil-rich regions. The areas visited were Kampala, Hoima, Buliisa, Masindi, Murchison Falls, Pakwach, Arua and Gulu.

This paper presents the findings of this research to Uganda’s donors.ⁱ It does not provide a detailed analysis of Uganda’s oil and gas sector to date – this has already been well covered elsewhere.ⁱⁱ Neither is it intended to provide a comprehensive political economy analysis of the sector – that would require far greater time and resources. Instead, it discusses Uganda’s oil sector within the context of the wider governance environment and highlights this as a key determinant to the outcome of the country’s oil windfall.

The paper is split into five sections. The first provides a brief overview of governance trends between 1986 and present day; the second summarises the development of Uganda’s oil and gas sector; the third highlights key areas of governance concern in the sector; the fourth examines the role of international donors to Uganda vis-à-vis the oil and gas finds; and the final section provides policy recommendations for the country’s donors in dealing with the governance of the emerging extractive industries.

i In order of financial support from 2000-2008: the World Bank; United States; United Kingdom; European Commission; Denmark; the African Development Bank; Netherlands; Germany; Sweden; Norway; Japan; Ireland.

ii See for example, International Alert’s report *Harnessing Oil for Peace and Development in Uganda*; the World Bank’s *Country Assistance Strategy for the Period FY2010-2011*; the Norwegian government’s *Strengthening the Management of the Oil and Gas Sector in Uganda*; and the Ugandan government’s *National Oil and Gas Policy for Uganda*.

I: UGANDA'S RECENT HISTORY:

SOME WORRYING GOVERNANCE TRENDS

Uganda's post-independence history up until 1985 was characterised by political instability and conflict. The country has never had a peaceful transfer of power, and crisis has tainted important transitions from independence onwards.

Following independence in 1962, Uganda experienced relative stability until a 1971 military coup by Idi Amin Dada. Political and economic turmoil continued from 1979 to 1985, with successive coups and a disputed election in 1980 that led to armed rebellions across the country. When Museveni came to power in 1986 as leader of the National Resistance Movement (NRM), he inherited multiple challenges in rehabilitating a failed state. These included restoring security; the state bureaucracy; a functioning economy; and integrating deeply divided ethnic and regional constituencies into a single nation. The prevailing opinion is that, during its first decade in power, the NRM made genuine and significant progress in addressing these challenges, although this must be weighed against the escalation of conflict in northern Uganda which pitted government forces against the rebel Lords Resistance Army.¹³

Private sector investment followed. Between 1986 and 1996, the economy grew at a rate of 6.8 percent¹⁴ – a dramatic increase over the previous twenty years. The donor community also responded positively to these developments, promoting Uganda as one of Africa's few "success stories", and Museveni was celebrated as one of a "new breed" of African leaders.¹⁵ As a result, huge donor funds were directed towards the country – at one point accounting for more than half the annual budget. These achievements reached their peak in 1995 and 1996 with the introduction of a new constitution, and elections for President and Parliament which were widely regarded as "free and fair". After ten years in power, Museveni stormed his first elections with 75 percent of votes – over three times that of his nearest opponent.¹⁶

Despite these successes, the NRM's progression from a post-conflict, stabilisation government to one which genuinely embraces democracy under a single polity has been far less triumphant.¹⁷

1996-2010; a turn for the worse?

A number of independent and donor-funded studies have characterised today's government of Uganda as one of *neo-patrimonial rule*. This is a system of government which is dominated by an individual leader whose personal authority is indistinguishable from that of the state and in which political power is maintained through a combination of patronage and the selective use of intimidation and force.¹⁸ The section below provides an overview of arguments in support of this position – many of which will already be familiar to our readers.

Transition from one-party state to democracy?

Constitutional amendments approved by a referendum in July 2005 introduced multi-partyism. Multi-party elections were held in 2006; and Museveni's NRM Party won the election with 59 percent of the vote.¹⁹ In the same year however, the Ugandan Parliament voted to change the constitution to allow Museveni to remain as leader beyond the presidential term limits of two five-year periods.²⁰ At the time of writing, the President's office had just announced that Museveni will campaign for a fourth term in the upcoming elections of February 2011.²¹ In the run up to next year's elections, Uganda's opposition parties and external observers have voiced strong concerns over the government's failure to deliver electoral law reform or address the perceived partiality of the Electoral Commission, voter disenfranchisement, and incumbents' use of state resources during campaigning.²²

Corruption and the erosion of accountability

In 2006, President Museveni announced a policy of zero-tolerance for corruption. However, four years on and most governance indicators show that corruption is perceived as widespread and endemic at all levels of society.²³

The corruption watchdog, Global Integrity, claims that the gap between the existence and actual implementation of key anti-corruption safeguards in Uganda as "one of the largest in the world".²⁴ Uganda's office of the Public Procurement and Disposal of Public Assets Authority (PPDA) estimates that over US\$330 billion (US\$184 million)

is lost every year to corruption in procurement.²⁵ Over the past ten years, scandals involving personalities close to the president periodically hit the headlines, as illustrated in the chart on p.8. In the last two years alone, there have been four high-level corruption cases – none of which has yet been fully resolved.²⁶

To date, the main vehicle for high-level graft appears to have been via procurement systems. But the onset of oil provides a potential alternative route to securing large sums of money, fast.

The military as a private personal force

The army has been an important power-base for President Museveni ever since the NRM came to power through the military defeat of the former government.²⁷ This power-base has been consolidated in recent years through the transformation and enlargement of his personal security unit into the Presidential Guard Brigade – a force of an estimated 7,000 men.²⁸ In June 2010, it was announced that Uganda's Presidential Guard Brigade will be integrated in the army's Special Forces unit in a bid to protect and enhance the security of the country's strategic assets, including oil fields along the western border. The Special Forces unit is led by Lieutenant Colonel Muhoozi Kainerugaba, the President's son.²⁹

A government of national unity?

When the NRM came to power in 1986, one of its priorities was to establish a government of 'national

unity'. More recently, a number of observers have questioned the extent to which this has been implemented. They point to the number of close relatives surrounding Museveni in influential government positions, and argue for the need to spread public appointments across a range of ethnic groups in Uganda to foster a greater sense of national inclusion.³⁰

Economic outlook

The poverty rate in Uganda fell from 57 percent in 1993 to 31 percent in 2006. Despite this consistently strong economic growth however, there is still substantial and growing urban-rural and regional inequality. Northern Uganda is particularly hard hit, with income poverty at nearly 60 percent, and poverty reduction in north and north-eastern regions has only been marginal. According to the World Bank, the poverty headcount rate could have declined by a further six percentage points if inequality hadn't widened.³¹

It is into this context of a degraded governance environment that oil has arrived in Uganda.

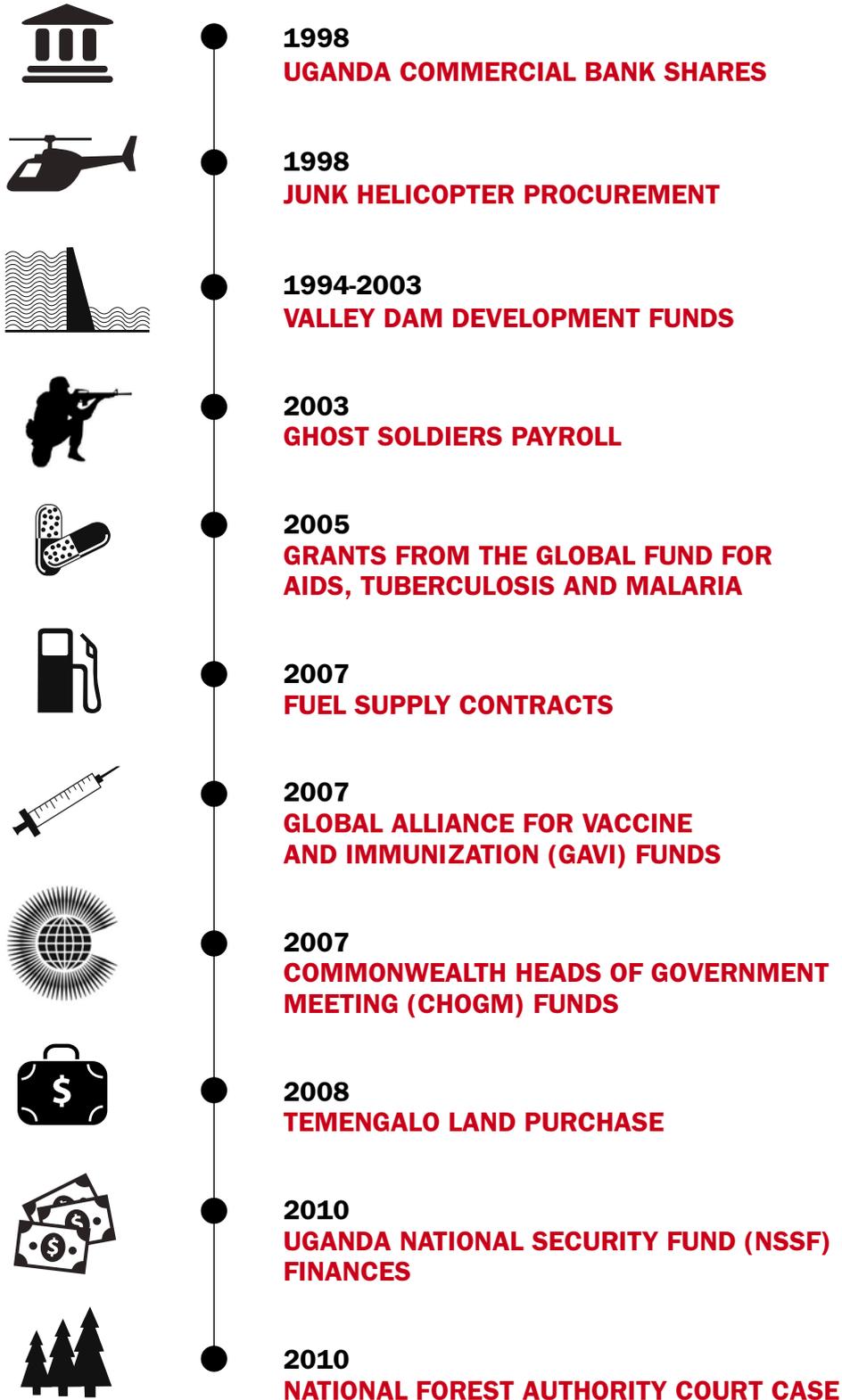
The following section outlines the findings of Global Witness' research into the oil industry in Uganda and interviews with key opinion and decision makers in the government, military, development, business, parliament, civil society, media and communities living in the oil-rich regions of the country. The interviews took place in June 2010.



The Ugandan national flag: Uganda's young democracy is under pressure

FIGURE 1: SCANDALOUS?

A selection of major corruption scandals reported over the last twelve years



For more information on the scandals set out above, see the Annex on p. 21

II: UGANDA'S EMERGING OIL INDUSTRY

Contrary to media reports, the discovery of oil is nothing new in Uganda. Oil in the Lake Albert area was identified under the British colonial government. Petroleum occurrence was first recorded in Uganda in the early 1920s, and Uganda's first deep well was drilled in 1938. The exploration process stalled however, largely due to the advent of World War II and ensuing political instability in Uganda.³²

There was renewed interest in accessing Uganda's oil in the 1980s and, when Museveni took power in 1986, he sent around 100 people for further training in geology overseas. The government institution currently responsible for Uganda's oil and gas sector – the Petroleum, Exploration and Production Department within the Ministry of Energy and Minerals Development – is today staffed with members of that first wave of trainees.³³

The extent of the oil find is not just limited to Uganda, however. It stretches beyond Uganda's borders along the entire East African Rift system.³⁴ The rift extends 1000s of kilometres in Africa alone through Tanzania, Uganda, northern Kenya and Somalia, across to the Red Sea and Gulf of Aden. It is, of course, not yet known whether the oil finds across the Eastern Rift system are commercially viable. If they are, then East Africa could be the next major new frontier for oil production.ⁱⁱⁱ

Prospecting for oil in Uganda's oil areas began in earnest in 2003-2004, and has ramped up since then. Exploratory companies have made a series of large oil discoveries around Lake Albert. Global Witness was told by an interviewee that drilling has also begun in the former Lords Resistance Army (LRA) stronghold surrounding Atiak on the border with South Sudan.³⁵

June's budget speech claimed that investments in Uganda's oil and gas sector have reached up US\$900 million.³⁶ As far as is known, the government has so far licensed five Exploration Areas out of a total of nine. These are Exploration Areas 1, 2, 3A, 4B and 5. Exploration Areas 1 and 3A were jointly licensed to Canada's Heritage Oil and UK's Tullow Oil. Tullow then bought out

Heritage's share in August 2010, leaving it with 100 percent interest in Exploration Areas 1, 2 and 3A. Tullow has announced its intentions to form a partnership with China National Offshore Oil Corporation (CNOOC) and Total.³⁷ This signals the move from a mixed bag of prospective oil companies to the entry of major-league players. At the time of writing however, the Ugandan government had ordered Tullow to cease all its activities until a dispute between the government and Heritage Oil over unpaid capital gains tax is resolved. Exploration Area 4B (Southern Lakes Edward-George Basin) is licensed to the UK's Dominion Petroleum and Exploration Area 5 (Rhino Camp Basin) to Neptune Petroleum, a subsidiary of the UK-listed company Tower Resources.³⁸

Depending on who you ask, anywhere between 34 and 44 wells have been drilled in the country so far. The success rate of these wells is reportedly between 89 and 94 percent.³⁹ Opinions on how much oil there really is also fluctuate. Global Witness believes that this variability in estimates stems from a confusion in differentiating between oil reserves (how much oil there is) and recoverable reserves (how much oil it is commercially viable to extract).⁴⁰ It seems likely that those estimates at the higher end of the spectrum are accounting solely for the former. For the purposes of this paper, Global Witness has based its calculations on the World Bank's Country Assistance Strategy for Uganda for the period 2011-2014.

According to the Bank: "*Oil production will change Uganda's economic outlook, although it is too early for projections. Oil exploration companies have announced discoveries totalling at least 800 million barrels of oil reserves, an amount comfortably above the threshold for commercial development ... Even at conservative prices, oil revenue will be considerable, potentially doubling government revenue within 6-10 years and constituting an estimated 10-15 percent of GDP at peak production.*" The Bank believes that these levels of reserves would put Uganda into a peer group with Chad (0.9 billion barrels), Republic of Congo (1.9 billion), Equatorial Guinea (1.7 billion) and Gabon (3.2 billion), but well below the likes of Angola (13.5 billion), and Nigeria (36.2 billion).⁴¹

iii This system is actually a series of distinct but related rift basins which encompass Uganda, Tanzania, DRC, Ethiopia, Kenya, Somalia and Libya. The "Albertine Rift" contains the East African Great Lakes, and an Eastern branch that roughly bisects Kenya north-to-south on a line slightly west of Nairobi. These two branches together have been termed the East African Rift (EAR). The two EAR branches are often grouped with the Ethiopian Rift to form the East Africa Rift System (EARS). News article, Time, <http://www.time.com/time/business/article/0,8599,1970726,00.html>

Given that donor aid has accounted for 35 percent of the national budget in 2010, such an influx of funding should logically bring Uganda's aid-dependence to an end within the foreseeable future.

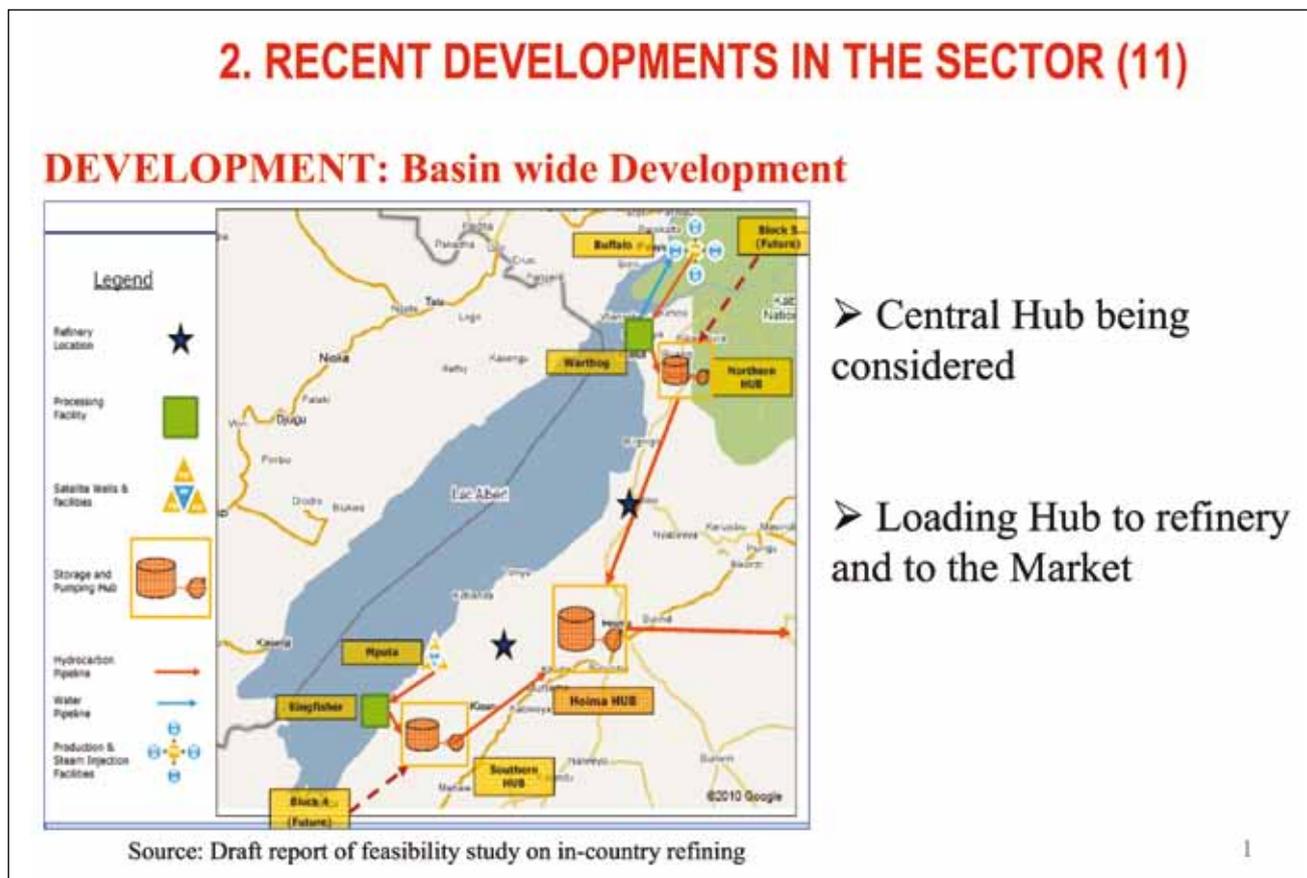
That said, there is great uncertainty regarding the time frame for reaching peak oil production and revenue generation. The location and type of Uganda's oil presents major challenges to anyone hoping to bring the product to market. The waxy nature of the crude oil means that any pipeline transporting it would require constant heating – failure to do so would result in breakdown for the entire pipeline.⁴² While positions are shifting rapidly, the current favoured approach appears to be a mix of refineries, bi-directional pipelines and rail transportation. A percentage of the crude would be set aside for refining at a central 'hub' in Hoima then exported via the bi-directional pipelines.⁴³ The remaining crude would be exported to regional markets. Oil could also be transported by railway, and recent newspaper articles report that efforts to restore the old East Africa Railway linking the interior of Uganda to the Kenyan port of Mombasa are underway.⁴⁴ There is also a plan to develop an 'integrated power project', where gas from the Nzizi field will be used to fuel a 50MW power plant.⁴⁵

Huge investments in infrastructure – estimated at US\$10 billion – will be needed to produce, transport,

export, and refine the oil.⁴⁶ Limited production of 10,000-20,000 barrels per day, primarily for domestic use, could start within two to three years, using trucking and railroad transportation. Full scale production could be reached in five to seven years, once downstream infrastructure is in place. Oil specialists estimate that peak production is therefore unlikely to start before 2016, and peak income from oil will only be reached in the years after this. Some believe that – given the logistical and political challenges – it could take far longer.⁴⁷

To prepare the sector, the government adopted a National Oil and Gas Policy for Uganda in 2008. This declares the government's intention to adhere to international best practice and *"to use the country's oil and gas resources to contribute to early achievement of poverty eradication and create lasting value to society."*⁴⁸

However, as outlined below, our research points to some worrying signals that the rhetoric towards good practice laid out in the National Oil and Gas Policy is not being followed in reality. The following section describes key flashpoints of concern which Global Witness has on the development of the oil exploration and exploitation value-chain in Uganda. Taken as a whole, they constitute a clear red-flag warning for future governance of the industry.



Screenshot from a Ugandan government presentation showing the potential location of refineries

III: EARLY WARNING SIGNS

FOR UGANDA'S OIL AND GAS SECTOR

1. Legal and regulatory framework

“The new Act will, among other things, include provisions for the development and production of natural gas; bring on board international best practices in areas like Improved Oil Recovery (IOR) together with Health, Safety and Environment (HSE) standards; provide a harmonious relationship with the proposed law on management of petroleum revenues; provide for National participation as an effort to enhance value creation by oil and gas activities; and provide for a more competitive licensing process.”

National Oil and Gas Policy for Uganda, February 2008.

Uganda does not currently have an up-to-date regulatory framework for managing its oil resources.^{iv} The Petroleum Act – which still governs exploration activities in Uganda today – dates from 1985. In other words, activities are running ahead of legal frameworks and the sector is currently operating in a legal vacuum.

To update and expand its legislation, the government is introducing a new Petroleum (Exploration, Development, Production, and Value Addition) Bill which will, among other things, include provisions for the development and production of oil and natural gas. Accompanying this Bill is the “Petroleum Revenue Management Bill” (still under draft) that will include provisions for management of revenues accruing from the industry.

In early June 2010, the government shared an advance copy of the Petroleum Bill^v with civil society. The expectation was that it would go before parliament ahead of the next elections in February 2011. In the event, the Bill has been delayed to allow for a complementary Petroleum Revenue Management Bill to be produced and passed at the same time. At the time of writing, no public date had been set for presenting the two bills to parliament.

Global Witness has seen a copy of the draft Bill. Along with other members of Ugandan and international civil society, we are concerned that it does not provide sufficient checks and balances to safeguard against the obvious risks of high-level corruption, and does not adhere to the policy commitments made in the National Oil and Gas Policy for Uganda. Global Witness believes the following areas need urgent attention:

Politicisation of the sector: the Bill does not protect the independence of the Petroleum Authority

The Bill establishes the Petroleum Authority of Uganda to monitor and regulate exploration, development and production, processing, transportation and storage of petroleum in country. Although the Bill provides for the independence of the Authority, it also empowers the Minister for Petroleum to give ‘policy directions’ to the Authority and requires compliance with those directions. The extent of such directions are not defined in the Bill. This creates an obvious risk that the independence of the Authority will be undermined by political interference.

Control of the sector: the Bill allows the appointment of key positions within the oil and gas sector to be determined outside of parliamentary approval.

There is no stipulation that the Minister for Petroleum will be appointed by parliament. It is the Minister’s role to appoint Board members of the Authority. Similarly, key positions in the National Oil Company – tasked with managing commercial aspects of petroleum activities and the participating interests in the licences – will be appointed by the President, outside of parliamentary purview. This creates a risk that the oversight function of parliament over the Petroleum Authority is negated, and that positions could be given out on the basis of personal connections and loyalties, rather than on merit.

^{iv} Petroleum exploration and production activities in the country are guided by the Petroleum (Exploration and Production) Act, Chapter 150 of the Laws of Uganda 2000 – which brings the 1985 Petroleum Act into force. Downstream petroleum activities (i.e. distribution, marketing and sale of petroleum products), are guided by the Petroleum Supply Act of 2003.

^v References to the ‘Bill’ refer to the draft Petroleum (Exploration, Development, Production, and Value Addition) Bill, dated 12th May 2010.

Licensing and contracting of the sector: the Bill does not establish a competitive, open bidding process

The clauses which refer to this process in the Bill should provide a strong basis to ensure that the best possible international partners are chosen to develop Uganda's oil resources. Unfortunately, no provision exists in the Bill for competitive and transparent bidding. The experience of other countries suggests that a lack of openness in this process heightens the risk of corruption. Where assets have been allocated corruptly, it distorts the market. Typically, this results in sub-optimal use of these resources and poor development outcomes.⁴⁹

Revenue Management: the Bill does not ensure that revenues from oil will be used for national development

The Bill is lacking in legal provisions to ensure that oil revenues are used to advance the public good in line with the government's National Development Strategy. At the moment, it is assumed that these issues will be covered in the upcoming revenue management legislation. Given that much of the risk faced by oil-producing countries comes in the form of mismanagement of the revenues generated by production, this is a crucial area for the future governance of the resource and more information is needed about the associated revenue management legislation. At present however, this is not in the public domain.

Access to information: the Bill severely limits public access to key pieces of information

The Bill does not require any public disclosure on the amounts of oil extracted from the ground, or the revenue generated by the industry. Other data such as the licences themselves, the field development plans and assignments can be revealed to the public only if disclosure doesn't violate "confidentiality of the data and commercial interests". Unfortunately, the Bill does not define the scope of confidentiality, leaving it subject to interpretation, and posing the risk that this interpretation could prevent disclosure in many cases. The Bill also requires payment of a fee to access the information, but does not state how much should be paid.⁵⁰

Royalty sharing: the Bill does not provide enough detail on how oil revenue will be shared

Schedule IV prescribes a share of 85 percent for the Central Government and 15 percent for the Regional and Local Governments but no additional information on royalty sharing is available. It also does not take account of the demands from

the traditional forms of institutions such as the Bunyoro Kingdom.^{vi}

Royalty sharing, and the roles played by central and local government – as well as traditional institutions – in managing oil development and its impacts were seen as key issues linked to conflict by the majority of interviewees during Global Witness' research. The issue is identified as a conflict risk by the 2009 International Alert report "Harnessing oil for peace and development in Uganda".⁵²

2. Transparency

This policy recognises the important roles different stakeholders have to play in order to achieve transparency and accountability in the oil and gas activities. The policy shall therefore promote high standards of transparency and accountability in licensing, procurement, exploration, development and production operations as well as management of revenues from oil and gas. The policy will also support disclosure of payments and revenues from oil and gas using simple and easily understood principles in line with accepted national and international financial reporting standards.

National Oil and Gas Policy for Uganda, February 2008.

While the government confirms its commitment to transparency in the oil and gas sector in the National Oil and Gas Policy, these high standards have not been implemented in practice. The section below illustrates this point.

Contracts

"It is through competition among licensees, operators, and suppliers, that cost effective choices can be achieved. Competition enables selection of the most capable operators, the most efficient, the best quality, and the most reliable suppliers thereby ensuring high levels of productivity. It is this that justifies the principle of open bidding."

National Oil and Gas Policy for Uganda, February 2008.

So far, public attention has focused on the lack of transparency surrounding the oil contracts between private companies and Uganda's government. These deals, known as production sharing agreements (PSAs), have not yet been made fully public.⁵³ Campaign groups have called for these contracts to be made transparent on the basis that it is an essential precondition to ensuring that a country's citizens can benefit from the extractive industries. In February 2010,

vi The Bunyoro Kingdom is calling for its own share of the oil revenues.

a Ugandan court dismissed a freedom of information petition to access information on the oil deals, citing 'national security' as justification.⁵⁴ Under pressure from civil society and parliament, Energy Minister, Hilary Onek, presented copies of the signed production deals to individual MPs from the Natural Resources Committee in July 2008, but these were not more widely shared.⁵⁵

Despite the lack of transparency surrounding these deals, the UK campaign group Platform has obtained and released draft copies of Heritage's 2004 Exploration Area 3A PSA (containing a comparison with PSA terms for Exploration Area 1 and Exploration Area 2), and Dominion's 2007 Exploration Area 4B PSA.⁵⁶

Concession allocation

The five exploration areas already allocated were given out sporadically on a first come, first served basis over the past 13 years.⁵⁷ To an extent, this uncompetitive process reflected the high risk oil companies investing in Uganda were taking and the country's position vis-à-vis other operating environments. The discovery of large reserves of good quality crude oil has changed Uganda's bargaining position however, and it is now far better placed to get a good deal with the allocation of its remaining four exploration areas on a competitive basis. During interviews, Global Witness was told to expect that they will be allocated to companies soon, although it was unclear whether this would occur before or after the elections. There was a suggestion that the existing concessions would be subdivided to maximise profits. This is supported by reference in the National Oil and Gas Policy to subdividing Exploration Area 3B, into 3B, 3C and 3D.⁵⁸ However, given the lack of transparency to date on this process, it is impossible to verify whether this is accurate and whether open bidding rounds will be held for the remaining concessions.

Signature Bonuses

A signature bonus is a one-off, upfront payment made by an oil company to a government in return for the rights to explore or exploit oil, and has become standard industry practice in many parts of the world. Depending on the prospective buzz around a concession area, the amounts involved can be stunning. BP for example paid a signature bonus to the Angolan government of US\$111,689,000 to secure petroleum Exploration Area 31 in 1999.⁵⁹

Platform, in partnership with Uganda's Civil Society Coalition on Oil and Gas (CISCO) this year published a report called, "*Cursed contracts:*

Uganda's oil agreements place profit before people." The report states that the Ugandan government has received US\$500,000 in signature bonuses for Exploration Areas, but that this money cannot be traced to any of Uganda's public accounts. This matters because when larger oil and gas revenues begin to flow, non-transparent accounting systems greatly increase the risk of money being siphoned off from the national accounts for personal gain.

It appears that there has been no accountability regarding the bonus money already paid to the government and which revenue stream it has been channelled through. The income has not appeared in any published budget and experts within the Ministry of Finance deny any knowledge of the money's location and/or use.

Quote from the 2010 Platform and CISCO report *Cursed contracts: Uganda's oil agreements place profit before people.*

It is also reasonable to expect that, given the strong results reported around Lake Albert, the next round of concession allocation will generate far higher signature bonuses than those seen previously. Global Witness understands that these bidding rounds will take place after the new Petroleum Bill is passed.⁶⁰

Revenue

The Extractive Industries Transparency Initiative (EITI) is a coalition of governments, companies and civil society which supports improved governance in resource-rich countries through the verification and full publication of company payments and government revenues from oil, gas and mining. While Uganda's oil and gas policy stops short of full-scale endorsement of the initiative, it does commit to "*Participate in the processes of the Extractive Industries and Transparency Initiative (EITI)*" and to ensure the "*development and harmonisation of accounting standards in oil and gas activities including implementing principles of the EITI.*"⁶¹

It remains unclear exactly what this means in practice however. Global Witness was told by one diplomat that the government does not intend to sign up to the EITI, and the issue appeared low on the diplomatic agenda during conversations.⁶² This is worrying because it could be indicative of a lack of political will towards transparency over future revenue flows. Even if accounting standards are applied, this represents a very narrow and technocratic view of revenue transparency. Crucially, it lacks a platform for tripartite monitoring of revenue management between government, civil society and the private sector.

3. Communications to manage public expectations

“The perceived importance and benefits of oil and gas activities in the country have raised significant expectations in the public, while the poor management of the sector in other countries, especially in Africa, has raised some anxiety... Timely information dissemination will go a long way in addressing these concerns. Constructive dialogue together with respectful and mutually beneficial relationships between the state, oil companies and other stakeholders will also contribute to reducing any anxieties and managing expectations.”

National Oil and Gas Policy for Uganda, February 2008.

The oil discoveries in Uganda are situated in some of the poorest and most conflict prone regions.⁶³ Information, or lack of information, over access to the oil benefits, (be they revenue, jobs, or social benefits) can either fuel or diffuse existing social fissures and local grievances.⁶⁴ A case in point is Sudan, where a lack of transparency over the oil revenue sharing between the northern and southern governments has significantly fuelled tensions and mistrust.⁶⁵

Throughout interviews in oil-affected areas a lack of information or consistent outreach/communications from the state on oil matters was a steady theme. During these discussions, it became clear that not enough information is in the public domain regarding: (a) the timing of oil production; (b) the feasibility and locations of a refinery/ies or pipelines; (c) the beneficiaries of oil – in particular, the roles of traditional authority versus government authority; and (d) information about the way in which revenues are likely to be shared. The latter was seen as a key issue, with individuals in the oil-affected communities advocating to receive a larger proportion of the revenues.

4. Military control of oil regions

All efforts shall be made to avoid the development of conflicts and emphasise peaceful resolution of disputes. Where oil and gas activities or their impacts extend to neighbouring countries, this spirit shall be exercised in accordance with the principles grounded in the country’s foreign policy.

National Oil and Gas Policy for Uganda, February 2008.

The Ugandan army is currently writing a new military doctrine which takes account of the oil discovery.⁶⁶ Following a reported threat from a Ugandan rebel group, the Allied Democratic Forces (ADF), the army has increased its presence along the country’s oil-rich western border with the volatile Eastern Congo.⁶⁷ The ADF rebels are reported to have attacked in 2007 with the intention of disrupting oil exploration activities. The military claim this as the biggest threat to the oil producing areas at present.^{vii 68} The Lords Resistance Army (LRA) on the other hand, occupies southern Sudan and has been sighted as far as Central Africa Republic and Darfur in Sudan. Although it is believed they will not return to Uganda, it should be noted that both the Amuru and Atiak regions where oil exploration is taking place are former LRA heartland.⁶⁹

The perceived threat has led to an increased military presence around the oil areas. Global Witness was told by one source that there are efforts to establish an oil intelligence network using local informants, to dispel community unrest. According to this source, the government has established a visible police presence around the drilling areas. These police are specially trained and have a military background.⁷⁰

In June 2010, it was announced that Uganda’s Presidential Guard Brigade will be integrated in the army’s Special Forces unit to increase security around the country’s strategic assets, including its oil fields.⁷¹ The Special Forces unit is led by Lieutenant Colonel Muhoozi Kainerugaba, the President’s son. The Saracen Security Company is contracted to provide security inside some of the drilling sites.⁷² Museveni’s brother, Major General Salim Saleh, is named in a UN report as the major shareholder in the Ugandan branch of the company.⁷³

From a governance perspective, the military control of the oil exploration areas by two of Museveni’s close relations is evidence of the increasing ‘personalisation of control’ by Museveni of the oil and gas sectors. Such deviation from democratic principles at this stage is highly undesirable.

The following section discusses donor engagement in Uganda over the past twenty five years, and analyses current engagement in the oil and gas sector.

vii It is also possible that these reports are being used as justification for increasing the military presence in the regions.

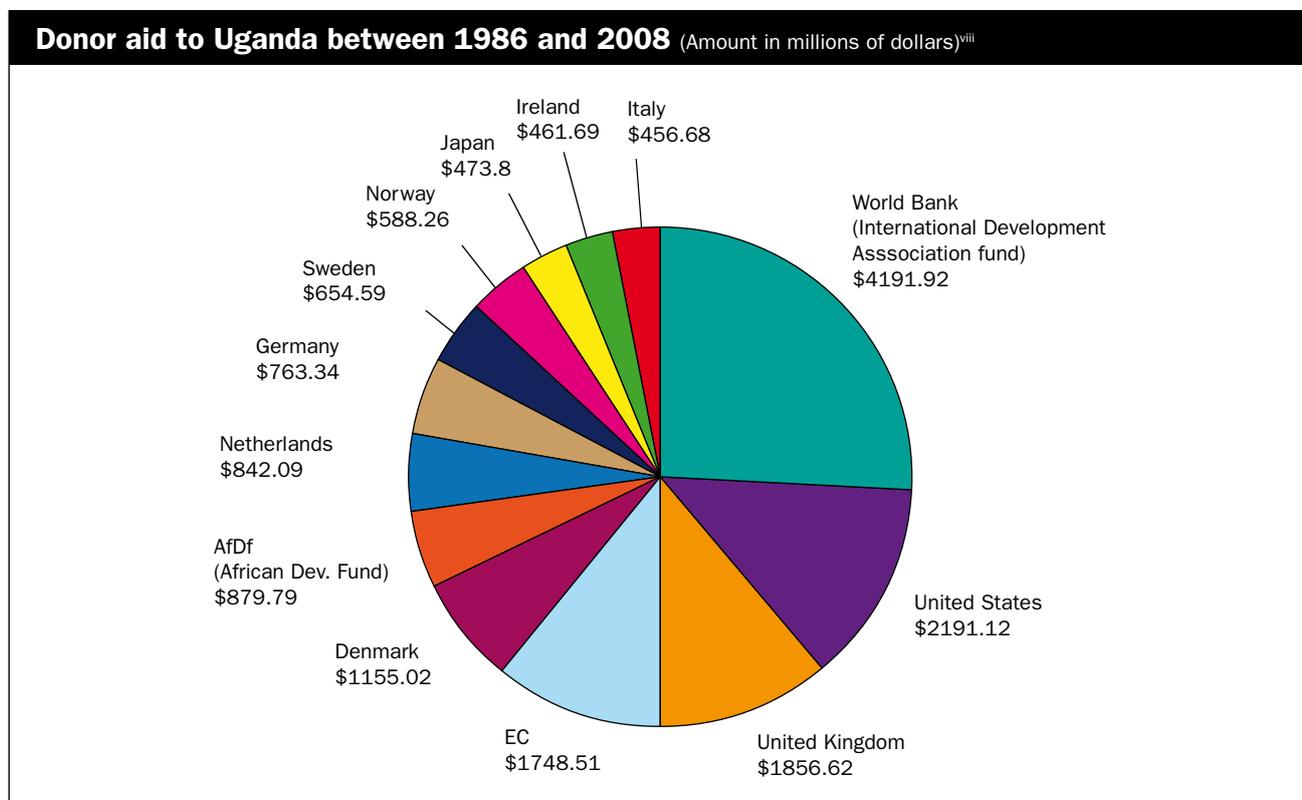
IV: THE DONOR APPROACH TO UGANDA'S OIL

The Uganda-donor relationship is now 25 years old. During this period, donors belonging to the Organisation for Economic Cooperation and Development (OECD) have contributed over US\$19 billion to the country's rehabilitation and development.⁷⁴ The chart below is drawn from OECD statistics and shows donor spending between 1986 and 2008.

As one might expect, the donor-government relationship has transformed over this period. Between 1985 and 1996, Uganda's role as an island of stability within an extremely volatile region, and its commitment to measures designed to ensure macro-economic stability resulted in huge commitments of resources by both multilateral and bilateral donors.⁷⁵ At its peak, donor aid to Uganda constituted over 50 percent of the national budget.⁷⁶

Uganda's status as donor-darling has eroded over the past fifteen years however, as the regime's

lukewarm approach to anti-corruption efforts, human rights and democratisation has become harder to excuse as the price of post-conflict stabilisation. On occasion, selected donors have chosen to withhold aid. Perhaps most notable among these were the punitive measures adopted in 2005 over the absence of political will to establish fair multi-party politics^{ix} and in the wake of the arrest and detention of opposition leader Kizza Besigye. Most recently, the group of donors who supply budget support^x cut ten percent of their aid as a result of government failure to meet anti-corruption targets; in particular, the non-prosecution of individuals implicated in the Commonwealth Heads of Government Meeting scandal (CHOGM).⁷⁷ Nevertheless, Uganda is still heavily aid-dependent. Before these cuts were announced, Uganda was projected to receive 35 percent of its overall 2010-2011 budget in aid, 68 percent of which is given in the form of budget support.⁷⁸



viii The chart is drawn from the latest available OECD statistics and shows total amounts in overseas development aid as defined by the OECD. It reflects disbursed aid, as opposed to pledged aid.

ix On this occasion, the UK cancelled £5 million of funding to Uganda, and Ireland withheld 2 million euros.

x At present there are 5 development partners providing general budget support to Uganda; Norway, Ireland, United Kingdom, European Commission and the World Bank. In addition Sweden, Netherlands and Germany provide sector budget support.

This combination of historically huge development assistance to Uganda, coupled with significant present-day funding, provides a strong incentive for the country's donors to proactively ensure that the arrival of oil in Uganda does not automatically translate into the *resource curse*. If they miss the opportunity to do so, the public investments made in Uganda's long-term development objectives and stability will be jeopardised.

“Uganda’s overriding development challenge is to manage its oil endowment for stability, prosperity, and sustainability. Success will depend largely on the government’s near-term policy decisions, especially regarding resource management, revenue management, and environmental management.”

Extract from the World Bank Country Assistance Strategy for Uganda for the period 2011-2015.

“Sizeable deposits of oil reserves have been discovered in western Uganda...this could yield between US\$2 and US\$5 billion in additional revenues per year. If used wisely, the revenue from Uganda’s oil reserves could make an enormous contribution to development.”

Extract from the Irish Aid Country Strategy Paper for Uganda for the period 2010-2014.

“The emergence of an oil and gas sector presents a unique opportunity for Uganda’s next phase in the development process, given that oil and gas wealth is expected to generate significant revenues to supplement existing resources. At the same time, if poorly managed or utilised, the oil and gas wealth could easily reverse the gains made in the last two decades especially in the areas of governance, export diversification, macroeconomic stability and structural transformation.”

Extract from the paper *Strengthening the management of Uganda’s Oil and Gas sector*, which sets out Norwegian engagement in Uganda’s oil and gas sector, February 2010.

The donor community in Uganda clearly understands the potential for oil to shift Uganda to middle-income country status; likewise, on its potential to plunge Uganda headlong into the *resource curse*. This is reflected in some aspects of donor programming where the country’s donors are engaging in the oil sector according to their strengths and expertise; but this is being done on an individual, not collective, basis.

Norway is the lead Development Partner in the petroleum sector, with a three-year, US\$15 million programme which began in June 2009. The

IMF is providing support on petroleum revenue management; the AfDB is providing support on infrastructure; Ireland is considering ways in which it can support civil society in Uganda to work in the sector; DFID is already funding some groups and is exploring other ways to support civil society; and the World Bank is helping with environmental regulations and discussing a possible Petroleum Sector Support Project for 2012 with the government.

When Global Witness met with a selection of donors in June 2010, none had considered co-ordinating a joint approach through the country’s budget support programme. The draft Joint Performance Assessment Framework, dated July 5th 2010, does briefly mention oil, but only in reference to revenue accounting. Researchers were told in meetings that oil issues had not yet been discussed at the Ambassadorial level with President Museveni. While engagement should be welcomed, the lack of overall co-ordination means the programmes risk adding up to less than the sum of their parts. Given that 68 percent of aid to Uganda is currently given through the budget support programme, this is the obvious starting point for such co-ordination.

In addition, Global Witness has three major concerns with the current collective donor approach:

1. Not enough proactive action is being taken to prevent elite capture of the oil industry in Uganda

Broad agreement appears to exist on the appropriate macroeconomic and technical policies to put in place to manage oil successfully. However, the risks that high level corruption and patronage politics pose to the successful management of Uganda’s oil resource – or how to deal with this – is less clear. There is also an implicit understanding that oil will alter the political landscape of Uganda, but the potential impact of this changing landscape on poverty alleviation has not been explicitly addressed. In Global Witness’ experience, revenue generated by oil in a *neo-patrimonial* context will typically reinforce the position and impunity of elites, further strengthening their hold on the levers of power: government, the judiciary, the armed forces and the bureaucracy. In such an environment, other efforts towards sustainable development will be undermined.

In a country with Uganda’s recent history of deteriorating governance standards, high-level corruption and nepotism, the lack of proactive engagement is a glaring omission. Given the succession of scandals surrounding the misappropriation of public and donor funds over the last ten years, there is more than enough

credible evidence to justify adopting a new, preventative and pro-active donor approach tailored to the oil industry.

2. Donors are downplaying the influence they have, or are likely to have, over the outcome of Uganda's oil discovery.

Global Witness found a sentiment amongst the donor community that their leverage has declined in the wake of oil discoveries. This dwindling influence is taken as a *fait accompli*.



An oil rig in Bullisa, Western Uganda

Taimour Levy/Platform

However, as discussed in section II, realistically Uganda will not see full-scale production until 2016 onwards, and is unlikely to reach peak revenue until some time after that date. Between now and then, donors will continue to fund a sizeable portion of Uganda's budget. President Museveni is certainly making political statements alluding to the country's growing financial independence from donor aid,⁷⁹ but realistically this is still some way off. It is therefore premature to talk about the decline of influence. Global Witness believes there is a five to ten year window of opportunity in which donors can still use their leverage to encourage the kind of environmental, social and political checks and balances to counteract declining governance trends. They need to start doing so now.

3. The concept of the natural resource value-chain, and the importance of early stage development, is not reflected in most donor country strategies.

Some amongst those interviewed reported oil as a distant prospect – too far away to be of strategic concern, and a minor event when compared with the upcoming elections in 2011. This is misguided because research on the *resource curse* increasingly points out the need to place greater value on the ensuring transparency and maximising benefits along the entire “value-chain” of oil and mineral wealth production; from the point at which resources are discovered and allocated, through to the production stage.⁸⁰ This is because the path from discovery of natural assets through to their conversion into a productive economy is long and complex. The first crucial stage is often with the allocation of concessions for the resource. It is at this stage that the foundations are laid and critical principles are established, for example, who gets access to and ownership of concessions, how transparency is ensured, and what governance principles exist. Getting it wrong at this stage can set the stage for suffering and loss down the line. When viewed in this context, the early stages in the process of developing Uganda's oil and gas sector should be a central issue of concern to donors.

CONCLUSION

Developments in Uganda's oil and gas sector present a mixed picture. On the one hand, the government has developed a progressive National Oil and Gas Policy which states the government's intention to adhere to international best practice standards. On the other, the industry is born into a deteriorating governance environment, characterised by the consolidation of Uganda's *neo-patrimonial regime*; increasing perceptions of corruption and high-level state looting; and some early warning signs that the government's own commitments to good governance standards laid out in its oil and gas policy are not being implemented. Global Witness' experience working in other resource rich, governance-poor environments suggests that, without immediate intervention, this will not end well.

There is a clear and pressing need for donors – collectively – to change their approach to oil in Uganda. The task is made more urgent by the advent of a potentially impressive mineral industry on the horizon. Many of the

recommendations below would also help to strengthen the governance of this sector.

Instead of seeing oil as a distant risk/benefit prospect which can be addressed by discrete technical and fiscal projects, Uganda's donors should place good governance of the sector front and centre of their engagement strategies to proactively address all stages of the oil production *value-chain*.

Establishing a credible position will mean creating and maintaining a unity of purpose within a core group of significant bilateral and multilateral donors, and willingness to trade off short-term development objectives against the possibility of sustainable development over the longer term. In other words, donors need to collectively set limits and stick to them. Building upon the government's policy principles outlined in its National Oil and Gas Policy and translating these into specific, measurable and time-bound indicators for the joint budget support framework would be the first step towards doing this.



Tainour Lacy/Platform

Uganda is at a crossroads. The country's donors need to collectively set limits and stick to them.

RECOMMENDATIONS

UGANDA'S DONOR'S SHOULD:

1) Integrate natural resource transparency, accountability and anti-corruption benchmarks into the budget support joint assessment framework. These should be specific, measurable and time-bound. As a starting point, donors can use the standards set out in the government's own Oil and Gas Policy to create jointly agreed benchmarks for the budget support programme. Specifically, donors should include benchmarks on:

Open and competitive bidding for the remaining oil Exploration Areas.

- Oil and gas rights should be awarded in open and competitive bidding process to ensure the best deal for Uganda.
- The following documents should be made publicly available:
 - *The criteria for pre-qualification of bidders and for awarding concessions or licences;*
 - *Tender documents;*
 - *Lists of pre-qualified companies;*
 - *Successful and unsuccessful bids within a reasonable time after the end of bidding and before the contract comes into force;*
 - *Contracts and other agreements signed with extractive companies;*
 - *Confirmation from the agency overseeing the award of rights that all the rules have been complied with.*

Open and competitive bidding for procurement contracts surrounding the oil industry.

- The government should introduce the same standards to cover contracts linked to the oil industry. For example, in the building of refineries, provision of supplies for oil workers or construction of railway infrastructure.

Oversight of the industry.

- There needs to be continuous oversight by an independent third-party/ third-parties of the awarding of rights and the implementation of contracts linked to the oil and gas industry. Whichever agency/agencies are appointed, they need sufficient authority, resources, independence and expertise to carry out this

task. They should make regular and timely reports to Parliament's Natural Resource Committee and parliamentarians from the oil affected areas. Minutes of these meetings and copies of the oversight reports should be made publicly available.

- The oversight role of parliament and enforcement agencies over the industry should be strengthened. The legislature, oversight and law enforcement agencies should have a right of access to all information on the award of oil, gas and mining rights that they need for their work.
- All payments made to local government from the resource revenues should be published at a local level. The government could, for instance, duplicate the example of the education sector, with monthly publication of payments made at a government and local level.⁸²
- Independent civil society groups should be allowed to continue to be actively involved in the oversight of the oil, gas or mining sectors, for example by working with public oversight agencies, or through their role in the multistakeholder groups of the Extractive Industries Transparency Initiative (EITI).
- In line with the spirit of the 2002 Leadership Act, the Inspectorate of Government department should be required to pro-actively publish on an annual basis the business interests of all high ranking government officials, parliamentarians, military personnel and those of their immediate family.
- The government should sign up to and implement the EITI. The EITI's remit should be extended to cover the allocation of exploration and exploitation rights, meaning that the government would disclose ALL payments it receives for its extractive industries; companies operating in Uganda would similarly have to disclose the payments they make to the government; and civil society has the opportunity to monitor these figures.
- Credible allegations of corruption in the oil and gas sector should automatically lead to independent investigation. Proven corruption should bring serious penalties for any companies, company employees and government

officials who are implicated, including the cancellation of contracts.

- All contracts and other agreements governing oil, gas and mining rights should explicitly forbid corrupt acts as defined in national and international law.
- The government should implement the revenue management measures set out in the IMF's Guide on Resource Revenue Transparency.⁸¹

Militarisation of the industry.

- Responsibility for guarding the oil areas should be removed from the army's Special Forces unit. The control of the Unit by the son of the President represents a fundamental conflict of interests and deviation of democratic standards.
- All members of the security forces should receive training in and be held accountable to act in accordance with international human rights law and standards including those on the use of force and firearms, in particular the 1979 UN Code of Conduct for Law Enforcement Officials and the 1990 UN Basic Principles on the Use of Force and Firearms by Law Enforcement Officials;

Communication of the industry.

- The government should produce and distribute clear and timely communications on the oil sector. These should include information on (a) how the revenue will be distributed and to whom (b) timelines for production (c) details on infrastructure projects (d) information pertaining to the award of rights to access the resource and procurement projects surrounding the industry.

2) Immediately take collective action to influence the content of the Petroleum (Exploration, Development, Production, and Value Addition) Bill. The legal framework should prevent conflicts of interest, ban corruption, and have a strong bias in favour of openness and against confidentiality and secrecy. Specifically it should include:

- Clauses to specify the independence of the Petroleum Authority of Uganda and the National Oil Company from political influence.
- Clauses to allow for the appointment by Parliament of non-executive Directors to the Petroleum Authority.
- The creation of bona fide government accounts for all petroleum receipts (including signature bonuses, royalties etc).

- Mandatory and twice yearly auditing of these accounts by a credible and independent accounting firm. The results of these audits must be made available to the public in a disaggregated form.
- A policy balancing the use of petroleum revenues between current domestic investment and receipts retained for future use.
- A decision on whether Uganda will establish a special fund for the saving or stabilisation of oil revenues. If such a fund is created, the government will need to set out the terms for its management, including the rules for deposits into the fund, investment strategy, withdrawal provisions, and systems for oversight.
- A provision to publish information on all petroleum funds received.
- A provision detailing which government positions are able to access oil revenue funds.
- A clause which prohibits any borrowing against future oil revenue, with a view to ensuring that Uganda doesn't end up indebted once the revenue stream ends.
- A clause which requires a percentage of funds to go towards national spending priorities as agreed in Uganda's national development strategy.

3) Coordinate and begin engaging with President Museveni on these issues.

- This should be done at an Ambassadorial level through existing regularly scheduled meetings and other high-level diplomatic relations.

4) Continue and increase support to Ugandan civil society's efforts to increase government accountability.

- Provide more support to Ugandan organisations working to build government accountability with respect to the management of public assets. Specifically, build the capacity of local civil society to document, monitor and scrutinise the management of natural resources and other public assets and ensure transparent public sector spending.

5) Begin to engage on the development of Uganda's mineral industry – with a view strengthening the governance of this sector in its early stages.

ANNEX: INFORMATION FOR SCANDALOUS? CHART

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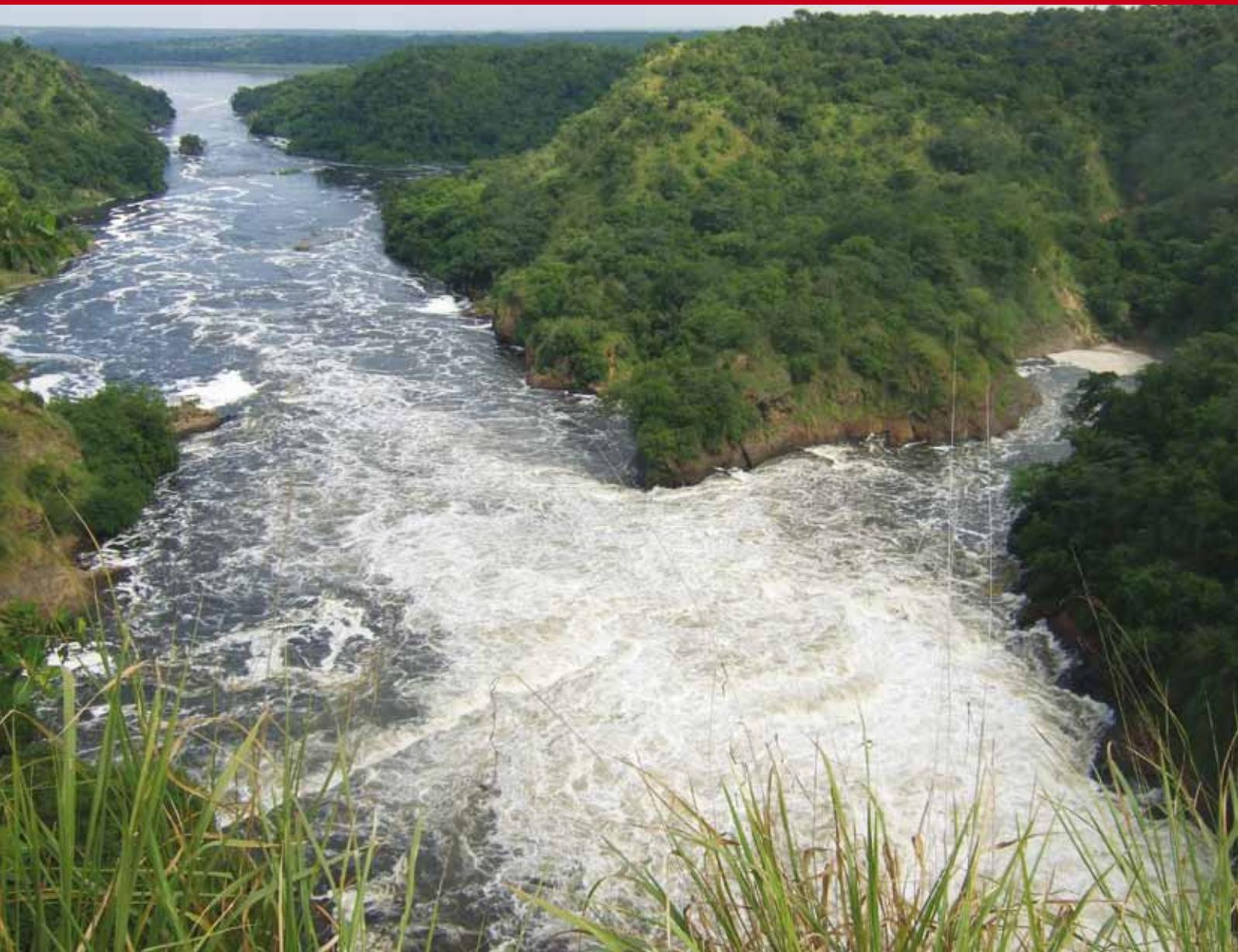
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The Muchison Parks waterfall in Western Uganda:
Much of Uganda's oil is found within this national park.



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