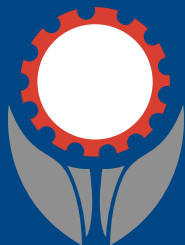


Oil Production

in a Social Market Economy
perspectives
FOR UGANDA

Report on the Conference
by the Uganda National Chamber of Commerce and Industry
in Cooperation with the Konrad-Adenauer-Stiftung



Konrad
Adenauer
Stiftung

50 YEARS OF WORLDWIDE COOPERATION

OIL PRODUCTION IN A SOCIAL MARKET ECONOMY

PERSPECTIVES FOR UGANDA

Report on the Conference
by the Uganda National Chamber of Commerce and Industry
in Cooperation with the Konrad-Adenauer-Stiftung
Serena International Conference Centre, Kampala, 13 September 2012



Konrad
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Foreword

Since its discovery in Uganda, oil has become the major factor dominating discussions about the country's economic future. Expectations are high: the economy is supposed to boom and many Ugandans hope that the oil revenues will soon boost the development of the country. However, this cannot be taken for granted, given that there are several examples of countries that continue to experience the opposite effect: oil production can even worsen the state of an economy and turn into the so-called 'resource curse'.

The decisive question for Uganda's economic future, therefore, is: How can oil production and oil revenues be managed meaningfully and sustainably in order to improve the overall economic and social situation of the country? How can the newly discovered resource instead become a 'blessing'?

It is in this context that the Konrad-Adenauer-Stiftung (KAS) considers it an honour and a privilege to have held a high-level conference on the important topic of oil production, and to have done so in partnership with the Uganda National Chamber of Commerce and Industry.

KAS is a German political foundation that is celebrating 50 years of international cooperation this year. In more than 100 countries the foundation is engaged in fostering democracy, the rule of law, human rights, and a free and competitive, but also responsible and, therefore, ethical economy, the 'Social Market Economy', as it is known in the German context. This is the conceptual framework that made Germany's economy what it is today and helped it to overcome the challenges it faced in the past, including the recent global economic and financial crisis.

Konrad-Adenauer-Stiftung is no expert on oil, but as a political foundation that analyses economic policies too, KAS believes that the way resources are handled requires a certain political and economic framework, and that certain guidelines and principles should be followed *if* the resources are to yield any fruit and hence prosperity. Since prosperity cannot be measured only in terms of capital, but also in terms of the well-being of the people, these principles should ensure that the economy is also fair, inclusive and beneficial. This is an objective that KAS supports in Uganda and all over the world and the background for the foundation's interest in the oil debate – with the aim of contributing to the development of a sustainable way in which oil



and its revenues can be managed for the benefit and prosperity of not just the Ugandan economy, but also its people and future generations.

It is my conviction that, given an appropriate political and economic framework, the Ugandan economy could greatly profit from oil production. And, overall, this was the goal of the conference organised by KAS and UNCCI: to contribute towards the search for this appropriate framework. In order to fuel the discussion and to give a positive example of natural resource management, the conference turned to the case of Norway, which has benefited a great deal from oil revenues from the time the natural resource was discovered in the early 1970s. In other words, for Norway, oil turned out not to be a curse, but an ongoing blessing.

However, what is it that made the Norwegian model a success story, while many other countries are suffering from the negative side effects of oil production? We believe that the decisive factor is to be found in the grounding values of the economic role model in place, the idea that an economy should be inclusive, sustainable and fair. This is the case with a Social Market Economy that is based on the principles of subsidiarity, solidarity and social justice that supports the notion of a common good. And is this not exactly what natural resources are – a common good?

The Norwegian model is not a blueprint and for that matter cannot be simply transferred to another context. Nevertheless it can be an inspiration. It can provide a positive and encouraging example of possible ways to effectively manage and benefit from the oil resource – also in a country like Uganda.

I would like to use this opportunity to thank the Uganda National Chamber of Commerce and Industry for the very productive and positive cooperation in supporting the dialogue on oil production in the light of the principles of a social market economy. KAS is grateful to have found a reliable partner, who shares our values and understanding of what could be a beneficial direction for the Ugandan economy.

We hope this publication will be just as fruitful and inspiring as our partnership and that it will contribute to the public discourse on oil production in Uganda in a meaningful and sustainable way.

*Dr Angelika Klein
Country Director, KAS*



Preface

The joint partnership between Uganda National Chamber of Commerce and Industry (UNCCI) and the Konrad-Adenauer-Stiftung (KAS) in organising the oil conference was commendable and should continue annually. The conference was a success, gauging by the number of very high-calibre participants and the candid discussion on oil production in the Albertine Graben, at the Serena Conference Centre on 13 September 2012.

As UNCCI, we are proud that we contributed to the discussion on oil production in Uganda. Of course, we equally join in the euphoria surrounding the discovery of oil and gas in our beloved country. As a country we pin great hope on this resource and we are optimistic that it will lead us to the socioeconomic transformation that we aspire to.

The oil conference was possible as a result of efficient mobilisation of the participants and pooling together of resources. But there is need for me to acknowledge the great contribution the Konrad-Adenauer-Stiftung made to ensure the success of the conference. We value the partnership with the Konrad-Adenauer-Stiftung and look forward to a long-term and continuous engagement with KAS as a key private sector partner.

The chamber was happy that an eminent person, the Director of the Oil for Development Programme at the Norwegian Development Agency (NORAD), Mr Petter Nore, honoured our invitation as the keynote speaker. Honouring the invitation gave the conference the global aura and deep recognition of the role Norway had played in the management of oil as a natural resource to develop its economy sustainably.

Norway provides us with an excellent example of an oil producing country that has for decades been benefiting from its revenues in a sustainable and inclusive manner owing to a meaningful policy framework based on the principles of the social market economy. How I wish Uganda could emulate that for the benefit of our people!

Equally, I need to give an accolade to our renowned economist, Dr Ezra Suruma, who agreed to be the discussant of the keynote address and gave succinct perspectives on the opportunities and challenges that lie ahead for us as a country. Dr Ezra Suruma brought his enormous experience and objective viewpoints to the discussion.

UNCCI participated in the conference as a cardinal duty in its capacity as the oldest voice of the private sector in Uganda. We have grown to become a vibrant and credible business association, owned by a multi-sectoral membership of the Ugandan business community.

UNCCI commends the government for spearheading the development of the oil sector with the firm view that the resource should primarily benefit Ugandans and grow our private sector through infrastructural investment, among others.

With oil production expected to start in 2015 at the latest, oil will most likely be the single dominant factor influencing economic development as well as economic policy formulation for the years to come. Therefore, this conference came at an appropriate time to contribute to this discussion and to ensure that we use this resource responsibly and sustainably.

The partnership with the Konrad-Adenauer-Stiftung to organise this conference was strategic in the sense that we both see this as an opportunity to raise the living standards of Ugandans and ensure that the economy that develops from the production of oil is people-centred and is informed by economic principles that put the welfare of citizens at the heart of the government's economic policy.



Experts and policy-makers in Uganda and globally agree that in order to maximise the benefits and to avoid negative effects, oil production, and particularly the expected revenue, needs to be managed in a careful manner in order for the oil production to positively contribute to sustainable economic growth and social development. In this regard we acknowledge the efforts of those Ugandan experts and policy-makers who have ensured the right policies are designed and adopted well in advance to guide the process of production and revenue investment.

In a nutshell UNCCI looks forward to greater partnership and continuous cordial relations with KAS, all the resource persons, the participants who responded to this clarion call, the government officials who participated and all those who contributed to the success of the conference. As the grand chamber we believe that through continuous sharing of information on topical issues, we will, indeed, together create a very robust environment in which to do business in Uganda.

*Olive Z. Kigongo
President, Uganda National Chamber
of Commerce and Industry*

Introduction and Background

By Mathias Kamp and Awel Uwhanganye

Summary

At a high-level conference organised by the Konrad-Adenauer-Stiftung in conjunction with the Uganda National Chamber of Commerce and Industry a range of outstanding experts presented their views on the topic of oil production in Uganda. The main focus of the discussion was the question of how the expected oil revenues can be managed in a meaningful way in order to ensure sustainable and socially balanced economic development. The presentations and discussions generated a number of concrete recommendations – among them the establishment of a sovereign oil fund for the Ugandan people.

The conference, which took place at the Serena International Conference Centre in Kampala on 13 September, was supported by the Konrad-Adenauer-Stiftung (KAS) under the political dialogue programme on the principles of the social market economy and their potential for inspiring meaningful economic policies for Uganda. For the first time, KAS cooperated with the Uganda National Chamber of Commerce and Industry (UNCCI) - the oldest and largest nationwide umbrella organisation of the private sector in Uganda. UNCCI was formed as a private sector body and has grown to become a vibrant and credible business association that is owned by members of the Ugandan business community.

The keynote presentation was given by Petter Nore, a senior expert on the management of oil revenues and Director of Norway's Oil for Development Programme. He presented the case of Norway, which provides an excellent example of an oil-producing country that has for decades been benefiting from its oil revenues in a sustainable and inclusive manner owing to a meaningful policy framework based on the principles of the social market economy.

Mr Nore emphasised that the discovery and exploitation of oil resources in Uganda could turn into either a blessing or a curse – depending on whether the country will put in place and effectively implement the right strategies.

Referring to the Norwegian example, he highlighted a number of characteristics that made the Norwegian oil experience a success story. These include political stability, a predictable legal and regulatory framework, strong institutions, an effective system of controlling how the revenues are spent (or saved), the involvement of 'watchdogs' such as parliament, media and civil society

organisations, and a proper balance between the interests of the different stakeholders.

While emphasising that Uganda cannot just simply copy the Norwegian model but rather has to find its own strategy, he still insisted that in order for Uganda to utilise the oil revenues appropriately and avoid negative scenarios such as the 'Dutch disease', the characteristics mentioned above should inspire the Ugandan approach.

Demand for a 'Uganda Petroleum Oil Fund'

Mr Nore's input was followed by a presentation from Dr Ezra Suruma, former Minister of Finance and currently Senior Advisor on the Economy to the Ugandan president. According to Suruma, 'there is little doubt that oil revenues have a very high propensity to bring a curse in the form of corruption, inequality, structural distortion of production, loss of exports and inflation. However, oil revenues also offer an opportunity to increase employment, to provide social security and to reduce corruption.' Thus, he concluded that the main problem which Uganda now faces is how to manage the revenues – or, in his words, the 'unprecedented size of money that is likely to flow into the country from the sale of oil' - in an efficient and equitable manner.

Dr Suruma expressed his optimism that oil production will provide the Ugandan government with the resources it needs to significantly improve the lives of the mass of Ugandans and set them on a path to sustainable development. He highlighted the need for balancing the purely commercial interests and private benefits with a proactive approach to improving the provision of public goods and social welfare.

'We see, in advanced economies, that the unemployed get unemployment insurance; the old get pensions, medical aid and other types of retirement income; the disabled have allowances and institutions to assist them; and the general principle that a citizen should not be allowed to fall into a "sub-human" state is embraced with varying degrees of conviction. That the government should provide a social safety net for its citizens is generally accepted in virtually all developed countries, including especially those in Europe,' Suruma stated with regard to the government's responsibility for ensuring a certain social balance.

He concluded his presentation by suggesting the establishment of a 'Uganda Petroleum Wealth Fund', which should absorb at least 50% of the net revenue from oil. He argued that 'the government is definitely going to need some of the oil money to meet its traditional as well as other evolving obligations. However, as a free people,



Ugandans have the right to determine for themselves how to allocate their resources. Some of the oil revenues, preferably a significant portion of them, should be allocated by the people themselves and not by the government.’

Panel Discussion

After the presentations the topic was discussed with a panel of experts.

Ernest Rubondo, Commissioner of the Petroleum Exploration and Production Department in the Ugandan Ministry of Energy and Mineral Development, is the leading government expert on issues of oil. He provided insights into some of the technical and financial details of the Ugandan oil production strategy as of now. He emphasised that oil production will take off gradually and that, therefore, the revenues will ‘trickle in as time progresses’. The audience at the conference keenly followed Rubondo’s explanations. As one participant put it: ‘This is the first time that such information is publicly shared in a forum like this.’ Rubondo, however, insisted that the existing oil policy as developed by the Ugandan government would ensure a sufficient degree of transparency.

The Hon. Elly Karuhanga, Director of Tullow Oil Uganda and Chairman of the Uganda Chamber of Mines and Petroleum, brought in the perspective of the private sector. He emphasised the need for cordial and fruitful cooperation between the government and the private sector. The ‘sensational debates and public allegations’ and the delays in expediting the oil and gas agreements and policies had led to uncertainty and frustration on the part of the private companies. He commended the useful recommendations brought forward by Mr Nore and Dr Suruma and emphasised the need for capacity-building and training of skilled workers in order to fully exploit the economic potential of the oil sector.

As a representative of civil society, Dickens Kamugisha, Chief Executive Officer of the Africa Institute for Energy Governance (AFIEGO), urged the relevant government institutions to ensure transparency and the effective involvement of all stakeholders. He concurred with Mr Nore’s and Dr Suruma’s arguments and highlighted the need for effective training and building of expertise to strengthen the downstream sectors and increase employment, especially for the young population.

Need for continued dialogue

The following open discussion with the invited guests centred around issues of transparency and accountability in the oil sector, the need for infrastructural development and capacity-building, the question of whether to directly involve the Ugandan people in decisions concerning the use

of the oil revenues, and the importance of striking a balance between private interests, public goods and welfare.

In her closing remarks, the guest of honour, the Hon. Amelia Kyambadde, Minister of Trade, Industry and Co-operatives of the Republic of Uganda, pointed out a number of challenges such as the lack of capital, inadequate infrastructure, corruption, limited skills in the workforce and ‘over-politicisation’ of the topic of oil in Uganda. She, however, stated that she was optimistic that the country ‘will grow economically and socially to fully benefit the people of Uganda’ if these challenges are handled well. She emphasised that addressing the challenges would require more consultations with all relevant stakeholders, better awareness of oil issues among the population, enhanced efforts for training and capacity-building, investment in infrastructure development, and a ‘multi-sectoral approach to the oil industry’.

At the end of the event, speakers and audience alike emphasised the need for continued dialogue on the topic. KAS and UNCCI were commended for having put together the conference which, for the first time, brought together such a diversity of stakeholders and high-level representatives to discuss fundamental issues related to the chances and risks of oil production in Uganda.

Keynote presenter Petter Nore from Norway lauded the spirit of the discussions and stated that he was impressed by the ‘intensity and openness of the debate in Uganda’. He urged Ugandans to keep up that spirit but to also move beyond the discussion and ‘let the words be followed by actions’.

The Conference Conveners

The **Konrad-Adenauer-Stiftung (KAS)** is a German political foundation that works worldwide in the area of civic and political education. For over 30 years, KAS has been active in development cooperation in Uganda, undertaking programmes and activities geared towards fostering democracy, promoting respect for human rights and supporting the rule of law. The activities of KAS have in particular involved working with Ugandan partners including civil society organisations, government institutions, the media and politicians in contributing to the promotion of democratic governance. The 'social market economy' is one of the focal points in the work of the Konrad-Adenauer-Stiftung worldwide. Since 2011, the portfolio of the KAS country office in Uganda has included the promotion of the basic principles of the social market economy as a new major objective and intervention area.

The **Uganda National Chamber of Commerce and Industry (UNCCI)** was set up in 1933. It is the oldest and largest nationwide umbrella organisation of the private sector in Uganda. UNCCI was formed as a private sector body and has grown to become a vibrant and credible business association that is owned by members of the Ugandan business community. It was formally registered in 1978 as a company limited by guarantee without share capital. UNCCI enjoys a diverse membership and nationwide outreach with its 10 regional and over 80 district branches and draws its membership from the entire private sector. The planned conference will be the kick-off for a newly established cooperation between UNCCI and KAS in order to jointly promote constructive dialogue and debate on economic policies in Uganda.

Success Story of the Social Market Economy

Since the beginning of its implementation in the emerging Federal Republic of Germany in 1949, led by economic experts in the first government under Chancellor, Konrad Adenauer, the social market economy as Germany's middle path of regulatory policy between centralist socialism and unbridled capitalism has been a story of success. Today we are looking back at more than 60 years of economic and social stability. The social market economy proved to be a valuable instrument of economic governance in Germany. But even beyond the German borders, the concept has turned out to be meaningful and inspiring.

Particularly in the context of globalisation and in the light of the recent worldwide economic and financial crisis, the deliberately holistic and yet not static but rather flexible economic, political, and societal model has received general praise. International demand for the application of its principles has increased accordingly.

The social market economy is a model that puts the human being at the centre of its attention. It proceeds from the needs and capacities of individuals, while at the same time emphasising the importance of solidarity within a society. This clearly distinguishes it from socialist approaches, which focus on the collective and claim the right to direct and intervene rather than adhere to economic governance. In this way, the social market economy is more than just an economic success story – it has become a cornerstone of German society. Its success in Germany, particularly during the recent worldwide economic crisis, has distinguished it as a model for economic and social stability and peace. Thus, it is not only a suitable overall system of order for national development but also one of the most precious German 'export articles'.

By looking back at the success story of the social market economy over the six decades, the Konrad-Adenauer-Stiftung aims to raise awareness of the concept and its principles and promote some of the major features of this concept as best practices. While the concept as applied in Germany should not be a 'blueprint' for an economic order in a country like Uganda, its key values and principles can, nevertheless, inspire meaningful policies. Some of its features provide best practices which can be applied and can thereby help to improve social and economic policies even in the context of African developing countries such as Uganda.

The Uganda National Chamber of Commerce and Industry shares with the Konrad-Adenauer-Stiftung the aim of enhancing constructive exchange on issues of economic management and economic policies through debate and dialogue, in which the principles of the social market economy can provide great inspiration. This is in line with the Chamber's mission of effective advocacy for sustainable economic policies and a climate that is conducive to economic development.



The Values and Principles of Social Market Economy

Freedom and responsibility are at the core of the concept of social market economy – and they are understood to go hand in hand. The concept shapes an economic and social order that combines and balances economic liberties, social justice, and the democratic rule of law. Based on the guiding concepts of solidarity and subsidiarity, it links the principle of a free market with the principles of social balance and individual responsibility.

Individualism

The individual human beings and their right to a life in dignity are at the core of the social market economy. Each individual should get the chance to develop and exploit his or her potential – and has the obligation to make good use of it. In contrast to collectivistic approaches, the human individual is ultimately at the centre of the economic and social order, with economic production not being a good in itself but a means to improve the living conditions for each member of society.

Freedom

Individuals are free to make their own choices and to pursue their own goals with all the capacities they have. This brings about a high degree of diversity and adaptability of the economy. The free individuals in the economy will try to optimise their gains, which in turn generates more wealth for the society as a whole.

Order

A society needs a clear order for economic processes which defines the ‘rules of the game’. Without these rules the economy and society would end up in anarchy and injustice. Therefore, the state has to intervene by providing an order defined by the laws and through meaningful economic governance.

Justice

Justice refers to the creation of a society in which all individuals have equal opportunities and in which fair conditions prevail – for example with regard to employment, remuneration, market access, and the allocation of goods and services. Creating social justice aims at balancing out extremes and ensuring the peaceful co-existence of all citizens. This includes reducing differences to a healthy degree – but, of course, without completely equalising the results of different performances.

Responsibility

As stated above, freedom goes hand in hand with responsibility. Each individual is responsible for his or her actions and can be held accountable for them. Although individuals are free to act autonomously,

their actions should correspond with the needs of the society they live in. Social responsibility is the basis for solidarity which, in turn, ensures support for the disadvantaged in society, and inter-generational sustainability.

Performance

Personal work is the basis for economic success, both at the individual and the societal levels. Given the freedom of every individual to develop his or her personal performance and to attain maximum results in the market, individual performance is a decisive factor for personal income. In a social market economy, however, this principle is supplemented by other principles, such as solidarity and subsidiarity, which ensure that those who cannot reach a sufficient income on their own (e.g. owing to disability, illness, unemployment etc.) are supported.

Solidarity

Solidarity means that much as individual performance is at the core of economic activities, the individual, as part of the society, still has to consider the common interest – motivated by the knowledge that common challenges can only be managed through common efforts. This principle of solidarity ensures harmony, cohesion, and social peace in a society. It relies on a system of mutuality, in which people contribute what they can based on the assurance that they themselves can also benefit from the solidarity of others.

Subsidiarity

Individual human beings are expected to take their fate into their own hands and primarily rely on self-help rather than support from others. According to the principle of subsidiarity, any matter should be handled at the lowest level capable of addressing that matter effectively – from the individual level to the family level, the community, and so on. That means that no social body should take up functions that an individual or a subordinate body can effectively fulfil based on its own capacities and resources.

Common welfare

Common welfare refers to the well-being of society as a whole. Each individual has the responsibility to contribute to the creation of societal wealth and at the same time the right to benefit from this wealth. In a social market economy, state institutions play a role in ensuring and administering public welfare. For example, taxes and other levies are imposed in order to provide public goods, such as infrastructure and social services, that benefit society as a whole.



Implications for Economic Policies

While the values and principles of the social market economy cannot be translated into a catalogue of standard policies – as stated above, they do not provide a ‘blueprint’ – they nevertheless point at a number of obvious societal and economic preconditions.

These preconditions include a competitive order as a basis for economic progress and innovation and a market system in which the freedom to access the market and to transact business is guaranteed. Furthermore, the right to ownership of private property needs to be respected as well as the ability of market participants to conclude contracts without unnecessary external restrictions (freedom of contract).

Despite the emphasis on freedom and competition, the social market economy does not rely on a pure ‘laissez-faire’ approach. It is the role of the state to provide order and a stable regulatory framework. In order to fulfil this role effectively, the state and its institutions and political forces must maintain a constant and consistent economic policy. This includes policies aimed at keeping the price level stable and ensuring monetary stability.

In extreme cases the state must also be ready to actively intervene (state intervention in case of market failure) – and must be capable of doing so – since a failure of the market can cause severe economic disruptions and bring about social challenges, as we have witnessed in the recent past at both national and international levels.

Ultimately, in order for a market economy to deserve the title ‘social’, the element of competition needs to be harmonised with the aim of maintaining a certain social balance. This task cannot be managed without a certain degree of re-distribution, financed through public revenue. It is the responsibility of the state to ‘enforce’ solidarity of the strong and rich with the weak and poor. Among the key instruments used in this regard are a progressive income tax and a system of social security in which compensation is guaranteed in case of illness, unemployment or old age.

Sceptics may perceive these measures as steps towards a welfare state which is not only costly to maintain but also suffocates personal initiative and responsibility. This, however, is a misunderstanding that overlooks the fine difference between a social state and a welfare state. In a full welfare state the individual citizen ultimately loses the personal responsibility of planning, investing, and securing his or her existence. In that case the balance between the two key principles of subsidiarity and solidarity is lost

– subsidiarity is basically disrespected and solidarity is exaggerated towards an almost collectivistic approach. This is not the case in a social market economy in which the free and responsible individual remains at the centre of economic activity and where the state plays only a complementary, regulatory, and balancing role.

When these preconditions are looked at, it becomes obvious that a social market economy requires a competent state in which the rule of law is guaranteed. For investment and innovation to flourish and for the market to function in a proper regulatory framework, there is need for reliability and trust regarding the laws and their enforcement. Citizens need to be protected from arbitrariness and equally enjoy legal security. However, respect for a minimalistic interpretation of the rule of law may not be enough. A social market economy should go hand in hand with the principles of good governance, which – apart from the rule of law – include effective democratic participation, transparency, accountability, responsiveness, equity, and inclusiveness, as well as effectiveness and efficiency of public institutions. It would be naive to expect a social market economy to function effectively in a political context where such principles are not respected.

A Concept for Developing Countries?

For decades the search for the best strategy to achieve better living conditions in developing countries and to enable people to live in dignity and prosperity across the globe has led to a wide range of different, sometimes competing or contradictory, approaches. The question of which economic and social order is most suitable for developing countries has for a long time been one of the key issues in development policy. And real consensus has never been achieved – although from time to time specific approaches and ‘prescriptions’ dominated the debate (and also the practice). We can identify these approaches by roughly distinguishing four phases of development policy over the last 60 years – and probably a new phase that is just beginning.

‘Development through growth’: Initially, in the early years of the development discourse (after the end of World War II), the applicability and usefulness of a free market economic system for regulating competition and managing the economy in less developed countries was rejected or at least viewed with a lot of scepticism. What prevailed was a tendency towards anti-liberal ideas of centralist economic planning and permanent state intervention with the aim of fostering economic growth as the key to development.

‘Basic needs approach’ and *‘war against poverty’*: Later, in the 1970s, the basic needs approach gained popularity.



The state continued to be seen as the central actor steering the economy, now with the main focus on reducing poverty and providing for the citizens in order to satisfy their basic needs. With the state supposed to play the role of 'provider', self-initiative and self-help approaches were widely neglected. With time, the negative consequences of these interventionist and protectionist approaches became obvious – one of them being the accumulation of immense debts.

'The lost decade' of the 1980s and the 'neo-liberal shock therapy': The debt crisis which severely hit particularly the poorest countries led to a huge crisis for development policy. What followed was a focus on debt reduction and the restructuring of economies. This was accompanied by a neo-liberal paradigm change, often summarised as the 'Washington Consensus'. Letting the forces of the market play out their 'magic' was the new credo – with deregulation, liberalisation, and privatisation becoming the new popular concepts.

'Sustainability' and 'good governance': The end of the Cold War brought about a general paradigm shift in international relations which naturally also affected development policy – opening up space for less polarised debates and more holistic approaches. The concept of sustainability gained popularity and the need to accompany economic policies and structural adjustment with meaningful social and environmental policies was perceived more strongly. Development policy started being understood as a much more comprehensive package – not only focusing on economics but also on issues such as human rights, efficient institutions, the rule of law, and participation of the people – popularly summarised under the concept of good governance.

'Social market economy': Over the last years the concept of social market economy has won increased attention in the development context. While for a long time the concept had been seen as applicable only to highly developed, industrialised countries in the West, more and more voices are now referring to the concept as a source of inspiration for developing countries. This is based on the conviction that even in developing countries economic as well as societal goals can be successfully realised under conditions of liberal and at the same time social, reliable and stable rules in both the economic and political spheres.

A number of factors show that an orientation along the concept of social market economy can indeed be a meaningful path for developing countries:

- The openness and flexibility of the concept that allow for an adjustment to general trends and challenges in the global economy as well as to specific requirements resulting from the given national context.
- The close link of the concept to the issue of

enhancing government competencies and strengthening stable and democratic political institutions – which is probably one of the core challenges in many developing countries on the African continent.

- The impulses for growth resulting from the effects of economic and social mobilisation in a free market with healthy competition.
- The pro-democratic push that comes with the promotion of social market economy principles, i.e. with regard to enhanced personal freedom, self-determination, and protection against the state in a context of rule of law.
- The peace-building character of a social market economy – as a result of achieving a better social balance and promoting a societal consensus on the core values of freedom and social justice.

Ugandan Context

In October 2012 Uganda celebrated 50 years of independence. The golden jubilee provided an opportunity to look back at the past and acknowledge the achievements that have been made, but also to focus on the remaining challenges and the way forward.

In the economic sphere, Uganda – just like many other African countries – has been struggling since independence with the challenge of transforming its economy and improving the welfare of its society. Despite periods of unprecedented economic growth, poverty and inequality still persist in the country and economic challenges remain daunting. In the light of these challenges, but also keeping in mind the current economic opportunities such as the expected oil revenues, a reassessment of Uganda's economic policies is timely and necessary.

Uganda, as many observers notice, seems to be at a crossroads with regard to economic policy. Until the late 1980s the Ugandan economy was more or less devastated as a consequence of its turbulent political history. But the takeover of power by the National Resistance Movement (NRM) marked a turning point in the economic development of the country. The originally adopted 10-Point-Programme was inspired by Museveni's early ideas and therefore contained rather socialist elements. However, in the face of tangible economic challenges and strong support by international donors, it quickly gave way to a pragmatic market-oriented economic policy. The economic reform process throughout the 1990s carried fruits and resulted in remarkable economic growth. Uganda became a 'darling' of the international donors. Owing to its macroeconomic stability and fiscal discipline and with President Museveni being viewed as a 'moderniser', Uganda was known for being one of the relatively successful and reform-oriented countries of Africa. However, while many of the reform



measures such as privatisation, market liberalisation, improvement in the investment climate, debt reduction, and diversification of the economy produced significant results, the Ugandan economic policy up until today still remains characterised by a certain degree of inconsistency and many shortcomings on the implementation side. Obviously a comprehensive guiding concept has been missing until now.

The current social and economic challenges Uganda is facing remain tremendous. Success in fighting poverty lags behind economic growth, and social inequalities have instead increased. A large part of the population has not yet profited from the economic revival, especially the rural population that depends on agriculture.

Social inequality as well as shortcomings in providing public services and the high unemployment rate nourish fears of social tensions. The 2011 events around the 'walk-to-work' campaign, partly triggered by increasing fuel and food prices (though ultimately politicised for other purposes), have shown that a certain potential for conflict exists within the society. Moreover, the government is increasingly subject to criticism and faces accusations of corruption, lack of budgetary discipline, and extravagant government expenditures.

The 2011 and 2012 government budgets brought a number of concessions and improvements. Fiscal discipline has somewhat increased again and funds have been allocated to meaningful programmes in some areas while unnecessary administrative expenses have been cut elsewhere. The emphasis on priority sectors such as education, roads, energy, agriculture, water and health is laudable. However, given the huge problems of income inequality, unemployment and poor public service delivery, many of the measures in the budget are still rather 'cosmetic' in nature - without effectively tackling the fundamental challenges of reducing poverty and improving the welfare of the people.

In order to address these fundamental challenges it may be necessary to reflect on the underlying values and principles of economic policies for Uganda - and to search for a guiding concept. The idea of a social market economy can be a valuable source of inspiration in this endeavour.

The Chance and Challenge of Oil Production

The recent discovery of significant oil reserves in Uganda and the ongoing explorations are currently a dominant topic of discussion among experts and policy-makers as well as the general public in Uganda. With oil production expected to

start in 2015 at the latest, the 'oil factor' will most likely be the single dominant factor influencing economic development as well as economic policy formulation in the years to come.

The oil discovery and the expected revenues from oil production are seen as an opportunity and a challenge at the same time. The euphoria surrounding the expected economic benefits is mixed with worries about the negative side effects of oil production that can be observed elsewhere and the fear of the so-called 'oil curse'.

Experts and policy-makers agree that in order to maximise the benefits and to avoid the negative effects, oil production - and particularly the expected revenue - needs to be managed in a meaningful manner. In order for the oil production to positively contribute to sustainable economic growth and development and to ensure that all spheres of society enjoy the benefits, the right policies have to be designed and adopted well in advance.

The concept of social market economy can provide guidance in the light of this specific challenge. Principles such as freedom (of the market and the individual), responsibility, justice, solidarity and common welfare - if reflected in policy-making - can ensure economic sustainability and social balance. They can help Uganda establish a policy framework that ensures a maximum and inclusive benefit resulting from oil production.

Experiences from Norway

The case of Norway provides an excellent example of an oil-producing country that has for decades been benefiting from its oil revenues in a sustainable and inclusive manner owing to a meaningful policy framework based on the principles of the social market economy.

The Norwegian economy is a prosperous example of what is sometimes referred to as 'welfare capitalism'. It features a combination of free market activity and government intervention in strategic areas, including the petroleum sector.

Norway is the second largest gas exporter and the sixth largest oil exporter in the world. It is highly dependent on the petroleum sector, which makes up the largest portion of export revenue and about 20% of total government revenue.

Norway is acknowledged around the globe as a role model in the management of oil revenues. The Norwegian government laid down economic as well as ethical principles to guide the use and exploitation of the oil for the benefit of the current and future generations of Norwegians. There is a consensus among the political actors in Norway that the national economy needed to be shielded from an excessive influx of oil money to avoid waste.



One of the key features of the Norwegian approach to managing oil revenues is the state petroleum fund – recently renamed pension fund to reflect its intended use. It is the world's second largest sovereign wealth fund. On a legal basis that defines the oil and gas reserves as common property, most of the oil revenue is set aside in the fund which is managed on behalf of the government by a central bank with a high degree of independence. The fund's returns are used to help finance public expenses.

The example of Norway can be a useful inspiration for Uganda in the search for a balanced and sustainable approach in managing the expected oil revenues.

Concept and Format of the Conference

The conference was the second high-level conference on the topic of the social market economy in Uganda. In June 2011, the Konrad-Adenauer-Stiftung in Uganda kicked off its programme on the social market economy with a conference on the topic 'The Role of State and Market for Sustainable Development in Africa', which was attended by Prof. Dr Horst Köhler, former president of the Federal Republic of Germany and former head of the International Monetary Fund (IMF), as guest of honour.

KAS Uganda and the Uganda National Chamber of Commerce and Industry (UNCCI) came together to continue in this direction with a series of annual high-level conferences on economic policies. In order to maximise the value of these conferences and to allow for a meaningful exchange of ideas beyond the Ugandan horizon, outstanding and experienced international experts are being involved.

The keynote presentation in 2012 was given by Mr Petter Nore, Director of Norway's Oil for Development Programme. He provided an insight into the Norwegian economic policies and how they help in managing the oil resources in a meaningful and sustainable manner.

Mr Nore's presentation was followed by an expert's outlook on the Ugandan context. Dr Ezra Suruma, outstanding expert and Senior Presidential Advisor on the Economy, discussed the social dimension of managing oil resources. Looking at the values of the social market economy, Dr Suruma assessed the opportunities of using oil revenues for enhancing social justice and common welfare in Uganda.

The overall aim of the conference was to facilitate constructive dialogue about the principles of the social market economy and their relevance and potential in the Ugandan context, particularly in the

light of the expected oil production. The high-level event brought together around 150 invited guests with leading roles and particular expertise in the areas of business and economic governance. This included high-level government actors as well as representatives of the media, academia, civil society, parastatal bodies and the business community.

The two presentations provided a starting point for a panel discussion. Additional input was made by three panellists: Ernest Rubondo (Commissioner, Petroleum Exploration and Production Department, Ministry of Energy and Mineral Development), the Hon. Elly Karuhanga (President and Director, Tullow Oil Uganda; Chairman, Uganda Chamber of Mines and Petroleum), and Dickens Kamugisha (Chief Executive Officer, Africa Institute for Energy Governance).

After an open discussion with the invited guests which was moderated by Patrick Kamara (talk show host at NTV Uganda) the event was concluded with closing remarks by the guest of honour, the Hon. Amelia Kyambadde (Minister for Trade, Industry and Co-operatives of the Republic of Uganda).

Oil Production in a Social Market Economy – the Case of Norway, an Inspiration for Uganda



Summary of the presentation by Petter Nore

Norway is an excellent example of an oil-producing country that managed to use the oil revenues in an inclusive and sustainable way. Because of certain characteristics and policy choices, the Norwegian population and economy have benefited for decades from the discovery of the oil resource. This turns Norway into a one-of-a-kind case among the oil-producing and -exporting countries, which otherwise often suffer from the negative side effects of oil production, such as the spread of corruption or the negligence of other integral sectors of the economy.

For these reasons KAS and UNCCI are convinced that Uganda can benefit from the Norwegian example to a great extent and thus invited Petter Nore, a senior expert on the management of oil revenues and Director of Norway's Oil for Development Programme, to give a keynote presentation and share the Scandinavian country's experience in the management of oil production and revenues.

Petter Nore opened his presentation by referring to the 'resource curse', often related to as the 'Dutch disease', which describes the damaging effect on an economy of the exploitation and export of natural resources. He emphasised that this curse was not inevitable and that oil production could instead lead to overall positive results and development in a country. According to Nore, a nation could benefit enormously if the economic, environmental and social factors, as

well as the interests and needs of all stakeholders in a country are taken into consideration when policies are being formulated. Whether oil would be a blessing or a curse for Uganda was up for discussion and would depend on the path the country would choose in the months and years to come.

In order to explain how it became possible for Norway generally to benefit from the production of oil while other countries suffer from the negative side effects of the exploitation of the resource, Nore addressed two main issues in his presentation: (1) the characteristics of a successful oil- and gas-producing country, illustrated by the example of Norway; and (2) national value-creation and business development based on the oil and gas sector. He also made a short input on the question of how these characteristics and economic policies were linked to the principles and values of the social market economy model.

The Characteristics of a Successful Oil- and Gas Producing Country

Petter Nore stated that, in his opinion, there were seven key characteristics that contributed to the sustainable and positive results in the Norwegian case. These characteristics would demonstrate how the Norwegian state was organised and acts, how it was possible to balance the interests of the different stakeholders, and how the oil revenues have been managed and used. However, Nore maintained that Norway should nevertheless not be considered a model nation in the field of oil production. He stressed that there was no 'Norwegian model' that could be exported or transferred to other countries, since each state was



a complex and unique entity that had to develop its own approach and policies in handling the production of oil, based on its unique set of conditions and circumstances. He expressed the hope that Uganda might nevertheless benefit from the Norwegian experience and maybe gain inspiration regarding how to organise oil production and manage the expected revenues.

According to Nore, the following seven characteristics were responsible for the Norwegian success story:

Political stability, consensus, and high legitimacy of the state

Since the natural resources of a country should be designed to secure the maximum benefits for the citizens of the host country, the political system of a state is decisive in how to manage and use oil revenues. Norway is today looking back on 100 years of political and social stability and democratic governance and it is a country where a strong tax collection system is in place. Social services are paid for with tax revenues and from the very beginning of the oil production the population was engaged in the decision-making process regarding how the oil revenues would be managed. Therefore, the Norwegian state enjoys a high level of trust and legitimacy.

Predictable legal and regulatory framework

Norway had been able to profit from the experience it gained with the exploration of hydropower in the early 20th century and, therefore, was not fully unprepared when Norwegian oil was discovered. The related legislation, which at that time ensured that the citizens would benefit as much as possible, was used as a model for the legislation on oil production. The aim of the legal and regulatory framework was to ensure good resource management, fairness, openness, and transparency as well as to secure environmentally sound and sustainable economic activities that also take into account the interests of future generations.

Among other things, these regulations and laws guaranteed stable development of oil and gas production and sound resource planning in Norway and created an enabling environment for research activities in the oil sector.

Build-up of institutions

The establishment of appropriate institutions was one of the key success factors in Norway. It ensured that the government had the capacity to act through directorates and ministries, which always have to have clearly defined roles and responsibilities

without intersections between them. By means of that the government's role as both regulator and owner of the resource was clearly distinguished and determined. Also the state-owned oil company, Statoil, was given a clear mandate that, for example, included the prohibition to interference in political affairs.

A system to control the savings/spending of oil revenues

A crucial point in handling the oil revenues in Norway was the establishment of a system that controls the amounts of money to be spent on certain projects – such as, for example, research or social services – and also the amounts of money to be saved in order to guarantee inter-generational justice but at the same time ensure that present-day interests are being catered for. The main objectives of the control system are, furthermore, to tackle fluctuating incomes and to control private or individual enrichment.

The system is one of the main components in ensuring inclusive development and sustainability and it ensures a certain spill-over effect into other sectors of the economy, such as services or agriculture.

Capacity-building

One of the major benefits of oil production for a population is the possibility to partake in capacity-building measures and programmes provided by both the government and economic actors. The main objective of these educational programmes is the development of a skilled workforce in government and business and the training of all stakeholders – in government, the private sector, civil society, and the general society. This can ensure that oil, gas, and their by-products are utilised in the most efficient and effective way.

Existence of 'watchdogs'

Any country that wants to succeed in oil production in a sustainable and inclusive manner needs to have the so-called 'watchdogs' in place. These include the press – often even referred to as the fourth estate in a state – political parties, parliament, and also civil society and non-governmental organisations (NGOs). The 'watchdogs' have the role of overseeing the process of oil production and revenue management and also advise other actors, such as the government or oil companies, since no actor can have ultimate knowledge in any area, leave alone a difficult field such as oil production where the interests of many different stakeholders have to be taken into account. The task of the 'watchdogs' has to be buttressed by transparency and accountability in the political system.



Balance between the interests of different stakeholders

A proper balance between the interests of all the stakeholders in the society, as already mentioned before, is key in succeeding in achieving positive results through oil production. The stable and democratic political system balances the different interests in Norway. It allows for a balance between public and private interests, i.e. between the interests of the state and those of the oil companies, between environmental and developmental interests, and between the interests of the present and future generations.

In order to achieve this, policies have to be put in place that ensure openness, accountability, and good governance, as well as prevent wasteful behaviour in times when a lot of oil and gas revenues are available.

At this point Petter Nore explained that Uganda was one of the core partner countries to Norway's Oil for Development Programme, that was active in 20 countries and attempted to share the Norwegian experience with those countries in order to optimise revenue and environmental management and to increase adherence to principles of good governance such as anti-corruption measures, transparency, and accountability. The programme, furthermore, aimed to enhance the way in which countries manage their resources through three different channels: (1) attempting to help in developing legal and regulatory frameworks and institutions; (2) promoting capacity-building in a society in order to make efficient use of the established frameworks; and (3) supporting civil society in establishing its role as a major stakeholder in the oil and gas business.

He added that in Uganda there was long-standing cooperation that focuses on capacity-building, legal support, and engaging the press, parliament, and civil society. He stressed that Uganda, in his opinion, had the potential to use its natural resources in a sustainable and inclusive manner. He added that the challenge he saw for Uganda was creating business on the back of the oil and gas industry.

National Value Production Based on the Oil and Gas Industry

In the second part of his presentation Nore focused on the question of how a country could use its natural resources in order to enhance the national industry and create additional value even beyond the oil and gas sector. According to the Norwegian expert, two components were crucial in the endeavour to obtain value out of natural

resources: the strengthening of local business and the development of human capital, i.e. a skilled labour force and personnel.

Mr Nore stressed that Norway might serve as an example of how to handle those issues and how to create local ownership in the oil and gas sector, but Uganda still had to find its own solutions to the problems and challenges ahead, since the conditions and context in which the Ugandan oil production will take place were differing fundamentally from the Norwegian circumstances.

Petter Nore emphasised the distinction between indirect and direct effects of the petroleum sector. He gave detailed definitions of the two terms:

- The indirect effects of oil and gas production in a country can manifest themselves as either a curse or a blessing. The term refers to the results of the spending and management of oil revenues. One of these results can be the 'Dutch disease', which means that through an imbalance in the trade of a country – i.e. it exports significantly more goods, most often natural resources such as oil, than it imports – the currency of that country gets upgraded. That leads to manufactured goods being less competitive against those of other nations, imports increasing and exports decreasing. The overall outcome, then, is deindustrialisation, which leads to unemployment and often the disempowerment of women, as can be observed, for example, in the Middle East and North Africa, but also in many other developing countries. The reason for this lies in the fact that in low- and middle-income countries women often enter the formal job market through taking jobs in low-wage, export-oriented factories. If a country's economy relies mainly on the export of petroleum, these kinds of industries are rendered unprofitable and one way for women to enter the job market and, thereby, gain a certain degree of economic and social independence is blocked. Therefore, according to Nore, it is crucial to take the gender perspective into account when considering the indirect effects of oil and gas production.
- Spent wisely on the other hand, oil revenues can be a foundation for industrial growth and development. That can be the case if the country invests in infrastructure, education, and capacity-building.
- The direct effects, on the other hand, are the consequences of the demands from the oil sector. They can be generated by the building and running of oil fields, downstream investments linked to the production of petroleum, such as petrochemicals, and from the development of local power production, especially gas. 'Local content' in



the context of national value production is defined as 'the extent of involvement of the human and material resources of the host country'. In the case of Uganda, this can be understood as the ways in which the Ugandan workforce and material resources and services provided by Ugandans or Ugandan enterprises and facilities are included and used in the oil sector. Ideally, international oil companies try to rely on Ugandan resources and workforce instead of foreign resources and contributions. In this way it can be ensured that Uganda and the Ugandan population benefit in a great measure from the exploitation of their natural resources.

Petter Nore stated that in further remarks he would focus on the direct effects of the petroleum sector, since these were the central starting point for the creation of national value.

Mr Nore shared the Norwegian experience with regard to the planning and implementation of policies and industrial development concerning the oil and gas sector. He gave four pieces of advice to the audience:

1. *Concentrate policies on the operating phase of petroleum and downstream activities. Nore divided the cycle of exploitation of natural resources roughly into two phases. The first phase is the project development phase, which lasts for three to five years. The second phase, the operational phase, lasts for 15 to 40 years and is, therefore, – even though during the project development phase the course for the entire business sector might be set – the phase that is crucial for benefiting largely from the oil and gas sector. Because of that, a petroleum-exporting country should position itself strategically, and not only go for the initial core phase without evaluating its own capacities and capabilities for the following years.*
2. *Choose the right kind of industries to concentrate on that are in line with the host country's technological level, which means a country like Uganda should have the appropriate industrial ambition. Petter Nore pictured the oil and gas industry as an image consisting of three concentric circles. The inner circle is the 'technology core' of the industry, the second circle consists of 'technologically advanced jobs', and the third circle contains the 'technologically simpler jobs'. Oil companies will be looking for local support in the outer circle, since these jobs require less skilled personnel and the Ugandan workforce, so far, has little experience in the oil and gas sector. For local business and industry to move towards the core, technology transfer to Uganda and the ability to absorb the technology will be needed. According*

to Mr Nore, getting towards the core would be a 15-to-20-year process.

3. *Carefully examine the economics of downstream investments. Mr Nore stressed that downstream activities, such as investments in fertilisers or petrochemicals, could easily turn into the so-called 'white elephants'. That means that those industries and activities might initially be valuable and useful, but can also turn into a burden since the costs of up-keeping and maintaining those economic activities exceed the economic benefits. Once established, it is also not possible to dispose of those downstream sectors easily, since that would mean destroying workplaces and losing previous investments.*
4. *Use oil and gas for local power production. Oil and gas can provide fuel for local power production and, thereby, create a more robust energy provision system. Increasing the generating capacity will also have positive general effects on the business environment, and gas especially is an excellent replacement for coal and a good fuel to interact with renewable resources such as wind, water or sun.*

Petter Nore stressed that three major groups play a critical role in developing a local oil- and gas-based industry: the local business community, the government, and the international oil companies.

Mr Nore explained that without the *local business community* and its ability to supply quality goods to the oil and gas industry, a sustainable and beneficial production of petroleum was not possible. The key question concerning those actors was how to increase quality and be certified as a supplier. Examples from similar cases in Ghana and Russia might help to gain insight into the answer to that question. With regard to Ghana, Petter Nore referred to a project implemented by SINTEF, a Norwegian research organisation that attempts to find ways of engaging local support companies in the oil offshore industry.

The Norwegian expert stated that *the government's* role in achieving local value-creation was to provide regulations that by themselves, of course, could not build an industry but that offered crucial support. He emphasised that the stipulation of a minimum percentage of 'local content' within the industry, on the one hand, and the transfer of technology, on the other, could force investors to work in the direction of national value-creation in Uganda. Policies and regulations that point in the direction of national discrimination always had to be transparent and limited in terms of the time of legal force.



The third major actor, the *international oil companies*, could play an important role in building a local industry through the transfer of technology and by building local skills and capacity, according to Petter Nore. He demanded of the companies that those activities should not only be part of companies' corporate social responsibility strategies, but rather become part of their business strategies concerning oil production in Uganda. He added that it was again up to the government to guide the companies in that particular direction by examining their role carefully and harnessing their investments to achieve economic and social development in Uganda.

Petter Nore explained that a key ingredient in the build-up of any national oil-related industry were skilled workers. He referred to the results of the Norway-financed study entitled 'Enhancing National Participation in the Oil and Gas Industry in Uganda' from 2011, that estimates the share of national content during the phase of exploration of oil in Uganda as low – probably around only 15 %. According to that study, one of the most important obstacles to engaging Ugandans in the oil and gas industry was the lack of skilled workers. Similar observations had been made in other countries, such as Ghana or Angola. The reason for that shortcoming lay in the fact that most attention in the area of capacity-building was given to higher education, Nore said. He stated that in contrast to that emphasis on higher education, skilled workers were the backbone of most local oil and gas activities. Uganda had already made some achievements in that area and, therefore, was in a relatively good position in comparison to the neighbouring countries, but it still had a long way to go if real local ownership and value were to be achieved. Nore suggested that, in order to build national value on the back of the oil industry, increased emphasis should be put on Technical Vocational Training and Education (TVET). The previously mentioned study reviews the barriers to and prospects of local content and presents all together 20 measures on how it can be increased and which role international donors and investors can play in that endeavour. He gave the following suggestions and instructions to international donors:

- Co-invest in or finance TVET facilities, materials and tools, and involve teachers and instructors together with international oil companies and the Ugandan government.
- Finance the facilitation of co-operation between international oil companies and the Ugandan government or education bodies in terms of TVET. This includes putting in place in-firm training, improving the curricula – which are often not in line with the needs of the labour market – and improving the certification of formal skills, since this is demanded by the international oil companies.
- Finance campaigns that intend to raise the status of and demand for TVET among the youth. This is necessary since in Uganda most youth are interested in so-called 'white collar jobs' and, therefore, prefer attending universities or institutions of higher education rather than TVET.
- Build capacity at those government bodies that intend to enhance local content.
- Finance and facilitate teaming between Ugandan and foreign companies. This includes mapping and certification of companies that qualify as suppliers to the international oil companies as well as a social market economy programme for the petroleum sector.
- Finance institutional cooperation in terms of establishing an oil supplier industry association.

Petter Nore added that international best practice examples in that area – such as Angola or Tanzania – proved that the active involvement of international donors in TVET could help to improve the number of skilled workers in a country significantly and, therefore, was indeed an important, if not crucial, step to national value-creation on the back of the oil and gas industry.

The Connection to Social Market Economy

Before drawing a general conclusion of his presentation, Petter Nore looked at the question of where the principles of the social market economy came into the picture. He took the Norwegian example and drew connecting lines between the characteristics of the Norwegian approach and the principles of the social market economy.

The first element he mentioned was the role of the state. In Norway, the state was not a liberal and passive state that would leave the development of the market to some invisible hand, as many liberal theorists and politicians suggest. Instead, the Norwegian state was a strong actor with regard to both regulation and ownership and strong relations with the private sector.

Furthermore, in Norway accountability and transparency played a crucial role in the economy.

In its relations with civil society, the government is a stakeholder like any other and solidarity – one of the key principles of the social market economy – is the one characteristic that structures Norwegian society. This refers to solidarity between the different generations and between the different layers of society. Finally, private enrichment through oil and gas revenues is given little space within the Norwegian economy.



According to Mr Nore, these key characteristics of the Norwegian model were the reason why it is possible to refer to Norway as an example of an oil-producing country within the framework of the social market economy principles.

Conclusion

To end his keynote presentation, Petter Nore summarised what he had elaborated on in his speech. He emphasised that it was possible that oil and gas production could lead to sustainable development within the context of a social market economy and that, therefore, the oft-cited oil curse was not inevitable. In order to help Uganda become a successful oil-producing and -exporting country, it was important for Norway to share its experience and give insights into how the Norwegians succeeded in turning their discovery of oil and gas into a success story.

For that reason, Nore offered some recommendations on what he considered the most important elements for sustainable and inclusive development on the back of oil and gas production:

It was crucial to balance the interests of all the different stakeholders. Properly functioning state institutions – both those already existing and those newly created – played a major role in achieving that balance.

In order to discourage any temptation to spend the oil revenues frivolously and without concern for the needs of future generations, social considerations, or further investments, it is essential to keep track of all revenues. Nore explained that this could be best achieved by encouraging openness and transparency. In addition, a sense of ownership among the citizens of the host nation has to be fostered.

Nore stressed that it was possible to build national businesses and to create national value on the back of the oil and gas industry. He explained that the direct effects of oil revenues could strengthen an industrial base and develop local 'clusters of excellence'. Nore furthermore warned that the direct effects should, nevertheless, not be overestimated and expressed the view that the effects of spending oil revenues – the indirect effects – could have even be more important for the industrial picture. Finally, he emphasised once more that the value of skilled workers in the oil and gas industry could not be appreciated enough. Therefore, the technical and vocational training of workers would be a good investment for Uganda.

Peter Norre concluded by expressing the hope that the insights from the Norwegian experience could be an inspiration for Uganda on how to handle its newly

discovered natural resources. Even though Uganda might profit from sharing the Norwegian example, he explained that the country would still have to find its own unique ways of handling natural resources and managing the oil revenues.

The lively debate that followed Nore's presentation was a positive sign that Ugandans would eventually find a way of producing and managing oil in a sustainable and inclusive manner.

Oil Production in a Social Market Economy: Uganda's Perspective



Presentation by the Hon. Ezra Suruma

I thank the organisers of this conference for giving me the opportunity to address this distinguished gathering of eminent businessmen, scholars, ambassadors, politicians and a cross-section of distinguished experts and citizens. Thank you very much indeed for the opportunity to talk about oil production in Uganda and the role which it can play in Uganda's economy.

Allow me also to thank Mr Petter Nore for his instructive paper which has illuminated our discussion with the especially successful experience of the Norwegian economy. I recall Mr Nore's important contribution to the first official conference on oil revenue management which was held in Munyonyo in 2008 under the sponsorship of Norway and the African Development Bank.

Let me confess from the outset that I am not an expert on the model of social market economy as it is articulated in Germany or elsewhere. I have visited several important German institutions, notably the Bundesbank, the Banks Supervision Authority and the German government's Department of Labour. Their impact on me was enormous. I especially remember the valuable lessons about the importance of the independence of the central bank, and the critical example of social security in Germany as a cornerstone of a truly civilised and humane society.

Mr Chairman, in addressing the likely impact of oil production on the economy and politics of Uganda, I thought it best to concentrate on a few strategic issues facing the country such as unemployment, the structural transformation of the economy and its implications for economic and political stability. I will try to show that revenues from oil production can make a significant positive impact on unemployment, structural transformation and political stability through increased economic justice and reduced corruption. I shall endeavour to show that while the threat of the oil curse is real, it can be mitigated if a significant proportion of the oil revenues are deliberately earmarked to reach the Ugandan people. The views I outline here are based on a chapter in a manuscript I developed recently when I was a Distinguished Visiting Fellow at the Brookings Institution in Washington DC. However, the views expressed here are entirely mine and not of the Brookings Institution or the Government of Uganda which I serve in an advisory capacity.

Definition of the Problem

I believe that there is some measure of consensus that the people of Uganda continue to suffer from widespread unemployment and severe income insecurity and poverty. Although the old challenges of personal insecurity and hyperinflation that the NRM administration inherited in the 1980s have been



substantially contained, unemployment, particularly among the youth, has become a major social and economic threat. Unemployment, poverty and income insecurity exist at all levels of Ugandan society and could conceivably undermine Uganda's future economic and political stability.

The Magnitude of Unemployment

With effect from December 2010, 250,000 pupils completed the Secondary Education Programme. The post-secondary school institutions of higher learning, could, at best, absorb only half of these graduates. Additionally, about 50,000 students are graduating annually from universities and other post-secondary education institutions. I estimate that about 255,000 young people will be added to the labour force annually for the next six years adding on to many more who graduated from various educational institutions over the years but have yet to find employment. So, the pool of people who are unemployed is already large and is growing rapidly.

Unemployment, poverty and income insecurity lead to the proliferation of corruption and crime. The economic pressure for survival at various levels of our society among millions who are living below the poverty line or living in fear of falling destitution cannot be ignored. One half of the labour force is self employed and has no prospect of a pension in their old age.

The Magnitude of Oil Revenues

The good news for Uganda is that the selling of oil will yield more money than the country has ever known or dreamt of. If the oil companies export the oil to other countries, we expect them to pay the Government of Uganda an amount of money equal to about 65% of the oil export value plus a tax on the profits of these companies and an additional royalty payment for mining the oil in Uganda. Possibly, these payments may amount to as low as 60% or as much as 80% of the total value of the oil after adjusting for the costs of production of the oil companies.

Assuming that Uganda sells 250,000 barrels per day of crude oil and receives about U.S. \$80 per barrel and, before allowing for the costs of oil the companies that are mining the oil if the government takes 65% of this, it will take $65\% \times \$20$ million = \$13 million per day. In a month, this will amount to \$390 million and in 12 months to \$4,680 million, i.e. \$4.68 billion in one year.

To understand how this money compares to what the government has now, it is useful to recall that by 2011 the URA collected about Ush5.5 trillion per year. In U.S. dollars, that is about \$2.8 billion. The total amount of money which the government spends every year, inclusive of what it borrows from foreign sources such as the World Bank, the African Development Bank and grants from other countries, all total about \$4.0 billion. Now, if a 65% share of oil revenues could bring to government an additional \$4.7 billion in one year, this is already more money than it is currently spending. It means that the government's income could more than double in one year.

More optimistic scenarios that give the government 80% of the oil revenues might raise annual revenues to about \$5.8 billion. If the revenues from the other sectors did not decline, then the government's annual revenue could increase to a total of \$9.8 billion in one year. This is nearly 60% of the current Ugandan GDP.

Finally, if we base our estimates on the current prices of crude oil of about \$100 per barrel and raise the levels of output to, say, 500,000 barrels per day, this could lift daily gross values to $500,000 \times \$100$ million or \$50 million per day. At the 80% tax rate, the government could conceivably take in over \$14 billion annually. In shillings of 2012, this is equivalent to Ush 36 trillion, which is about four times what the government currently spends, and which is also greater than the current GDP of Uganda.

The Curses and Benefits of Oil

The main problem, which Uganda now faces, is how to manage this money in an efficient and equitable manner. There are people who say that the oil revenues might become a curse that could cause a lot of social and economic dislocations instead of improving the quality of life for most Ugandans. However, there are others who believe that this windfall will provide the government with the resources it needs to significantly improve the lives of the mass of Ugandans and set them on a path to sustainable development. Who is right?

Oil production will provide new employment

When copper mining was ongoing in Kasese in western Uganda in the 1950s, many people abandoned their traditional pursuits and flocked to the region, seeking opportunities to amass quick fortunes through work in the mines or in other businesses that had emerged to serve mine workers. Kilembe Mines quickly grew into an international town with many nationalities. There were hotels, bars, shops, clinics, and all manner of economic and social activity in



Kilembe. Now, the size of economic and social dislocation that occurred in Kilembe is likely to be insignificant compared to what is likely to emerge in an oil-rich Uganda. Why? Because oil promises to provide the national economy with a much larger windfall than that associated with copper mining in the 1950s.

There will be oil pipelines to construct and to maintain. There will also be the construction of extensive storage tanks and these will have to be managed and secured around the clock. There will be the movement of hundreds or even thousands of tankers that will require drivers, turn-boys, spare parts, mechanics and other social and commercial infrastructures such as restaurants, bars and lodges.

The construction of refineries should create a few thousand jobs for engineers and technicians. New facilities for power generation using heavy oil and natural gas will probably be created. There will also be opportunities for the manufacture of ammonia, fertilisers, kerosene, jet fuel and numerous other by-products, including the expansion and intensification of efforts towards pollution control and environmental protection of precious natural resources such as the waters of Lake Albert and the River Nile. Additionally, tens of thousands of workers will be needed to carry out accounting, transportation, telecommunications, retailing, reporting, investigating, research, teaching and speculation about oil. Every manner of activity will occur as Ugandans, neighbours and people from all over the world come to Uganda seeking to profit from oil.

While these new employment opportunities will greatly assist Uganda in reducing unemployment, it also means that some activities in which Ugandans have so far been engaged will be abandoned because many workers will see them as less financially rewarding. Workers are likely to exit such industries in favour of oil-related opportunities.

Uganda may want to learn from Nigeria's failure to properly manage its oil windfall, a process that resulted in significant social and economic dislocation. For example, shortly after the OPEC oil price increases of the mid-1970s, Nigeria, then a major oil producer, began to receive significant revenues from oil. As a consequence, many rural farmers began to abandon their farms and migrate to the urban areas and to the oil fields. The result was a near-complete destruction of what had once been one of the most productive agricultural sectors in West Africa, as well as severe urban congestion. Today, Nigeria continues to suffer from the 'oil curse'.

Without deliberate and purposeful policy on the part of the Ugandan government to increase agricultural productivity, particularly through the widespread use of fertilisers, more and more farmers will most likely leave the agricultural sector to seek employment opportunities in what is likely to be a higher-paying oil sector. In the process of these adjustments, the structure

of the economy will change. It is very difficult, if not impossible, to predict beforehand how deep this structural transformation will be. What is certain is that people, who are living marginally on the land and just eking out a subsistence livelihood from what is essentially subsistence farming, will almost certainly see their children leave for the oil fields with no intention of ever returning to the farms. If the shift from agriculture to oil and related businesses is significant, Uganda would most likely become like Nigeria, where oil revenues make up about 97% of the country's earnings from exports. That means that traditional exports, such as coffee, tea, maize, and bananas will become insignificant as Uganda shifts to an oil-based and oil-dominated economy.

The threat of colossal corruption

As also occurred in Nigeria, the oil curse may manifest itself in Uganda through a significantly rise in the level of public corruption. Individuals and organisations will seek ways to illegally access oil revenues that will accrue to the government. Basically, as the oil money flows to the national treasury, many people are likely to engage in endless schemes to steal the money— i.e. to illegally redistribute it in their favour.

For example, the Ministry of Works and Transport, which now gets about \$500 million, might see its budget rise to about \$2,000 million per annum. Currently, roads are constructed by private contractors. Thus, more private contractors are certain to emerge both locally and from abroad to participate in the infrastructure construction boom. The Road Authority, which has had difficulty absorbing \$500 million, will now be under pressure to spend double, triple, or even quadruple that amount. The temptation to bribe government officials in order to secure huge contracts will rise significantly.

Today Uganda is still grappling with the allegations of corruption over the funds allocated to the Commonwealth Heads of Government Meeting (CHOGM) of 2008, the Global AIDS funds and the Identity Cards Project among others. Yet these were relatively small amounts of money. CHOGM, for example, received only \$200 million. If the Uganda government could not satisfactorily control \$200 million, it is going to face a greater challenge to control \$2 billion, or \$4 billion or \$10 billion. The fact of the matter is that we may not yet have the institutional structures to ensure the efficient and equitable allocation of funds of this magnitude.

In the light of our recent experiences, it seems likely that those who have been saying that the oil curse cannot occur in Uganda have not given us convincing reasons for their optimism. Many of these optimists have been basing their statements on the presumption that the NRM is a people's movement, which has the best intentions for the people. The fact of the



matter is that even a government of the people by the people for the people carries within itself the seeds of turning oil into a curse, if effective accounting and accountability systems are not in place or not observed, and the moral culture that is necessary to monitor and enforce the proper use of large government allocations to the several ministries is missing.

Ideological Approaches to Oil Revenue Management

In my view, there are two main models of oil revenue management that Uganda needs to consider very seriously. The first model, on the extreme left, is that all revenues from oil should go to the government and the government should decide how to use all these revenues. The second model, on the extreme right, is that all the revenue from oil should be distributed to the people who are the owners of all the resources of Uganda and the people should, in their individual capacities, decide what to do with their share of the money.

These are two opposite extremes. In between them, one can look at the government managing a majority proportion of the money while distributing a minority share to the people. On the other hand, government could spend a minority share and let the people receive a greater share of the money. Which of these positions is best for Uganda?

So far, there seems to have been an assumption that all revenues from oil must go to the government. Under the current constitution, all government money must be put on the consolidated fund, which is the government bank account at the Bank of Uganda. In order to spend any money on the consolidated account, the president must submit a budget to parliament requesting authority to spend the money. When parliament approves the budget, the government can spend as approved by parliament. This is the current law. Under this law, all money from oil would have to be put on the consolidated account and would then be spent with the approval of parliament. If the government decided to save some of it, that would also require parliamentary approval.

The way our budget is constructed today relies on the estimates that civil servants make about what they want to do in their respective ministries. Each year, the civil servants in each ministry draft estimates of the expenditures they think their ministries should carry out. These estimates are presented to the ministers of the various ministries. Most of the ministers have a limited understanding of budgeting. They will discuss broad areas of expenditure such as a road from A to B which the president may have directed them to build. On the whole, it is fair to

say that the civil servants in each ministry construct the budget proposals. They then discuss them with civil servants in the Ministry of Finance and then seek the approval of their ministers, the cabinet and then parliament.

So to what extent does the budget reflect the wishes of the people? To the extent that Members of Parliament lobby the president and the civil servants to include their constituency needs in the budget, perhaps the budget can be said to represent the wishes of the people. In my opinion, what really happens is that government bureaucrats make the budget and the politicians put their stamp of approval on it with varying degrees of impact on the final expenditure and the outcomes of that budget.

Now that oil revenues are going to shift a larger share of the GDP to the government, should all that share of GDP go to public goods or should some of it go to the people to meet their other needs? Does the expenditure of all the oil revenues on public goods automatically maximise the interest of the nation? What about the other needs of the people like food, medicine, clothing, shelter and transport?

In order to get private goods that are necessities of life, people must have employment from which they earn income. In the absence of employment, they need some form of insurance, welfare payment or a retirement fund from which they can get the resources they need to meet their basic needs. People need more than roads, more than schools, more than security and law and order. As vital as these services are, they are not enough. Employment is absolutely essential and in its absence, there must be some income flow if the people are to escape a sub-human existence.

It is fairly easy to see that citizens who are unemployed, disabled, old, or sick certainly deserve assistance, especially from their government. We see, in advanced economies, that the unemployed get unemployment insurance; the old get pensions, medical aid and other types of retirement income; the disabled have allowances and institutions to assist them; and the general principle that a citizen should not be allowed to fall into a 'sub-human' state is embraced with varying degrees of conviction. That the government should provide a social safety net for its citizens is generally accepted in virtually all developed countries, including especially those in Europe (e.g. Germany, France and the United Kingdom).

Can we safely say that it is all right for the government to accumulate billions of dollars in the Bank of Uganda, in an oil fund, for future generations, when current generations of men, women, and children are going without food, without medicine and without shelter? Are future generations more deserving than today's poor Ugandans? I believe that this issue requires more debate.



Lessons from Alaska and Norway

This debate could be usefully enriched by looking at how some countries and municipalities have managed or are managing their oil revenues. I refer specifically to the State of Alaska in the United States and to Norway. Both Alaska and Norway are major oil producers. To make certain that both present and future generations of Alaskans benefit from that state's oil wealth, the government of the State of Alaska created a permanent fund in which about 20% of the royalties paid by the oil companies to the government are placed in the Alaska Permanent Fund. The money in the fund is managed and invested on behalf of the people of Alaska by professional investment firms. Earnings from the fund are distributed to all the citizens of Alaska every year based on the fact that it is the citizens who own the state's mineral wealth, which, of course, include the oil.

In the case of Norway, the taxes and other payments from the oil companies to the government have been placed in a fund called the Norwegian Pension Fund. These funds are also managed by professional investment managers and the earnings from the funds are used to pay pensions for the people of Norway. Under this public programme, the citizens of Norway are guaranteed pension income once they reach old age.

I believe that while Ugandans support roads and power infrastructures and know that they are absolutely necessary for the country's economic growth, they also know the bitterness of poverty, sickness and disability. They know the pain of old age and of being orphaned without income. Therefore the government should not ignore these conditions. The time is ripe for government to act aggressively to ensure that all citizens are provided with an appropriate safety net, especially one that will prevent them from either sinking into abysmal poverty or retiring to a life of misery and desperation.

Who is to decide? Is it not the people to whom the oil belongs? In the case of Alaska, the matter was put to a referendum; and the people of Alaska decided overwhelmingly that a fund be set up in which they are all participants and of which they are all beneficiaries.

In my estimation, at least 50% of the net revenue from oil should be placed at the disposal of the people of Uganda, by means of a 'Uganda Petroleum Wealth Fund', for them to determine how to use in an efficient and equitable fashion. To be sure, the administration of justice, the defence of the

nation, and the construction of large infrastructural projects that serve the common good, require a significant level of government capacity. Thus, the government is definitely going to need some of the oil money to meet its traditional, as well as other evolving, obligations. However, as a free people, Ugandans have the right to determine for themselves how to allocate their resources. Some of the oil revenues, preferably a significant portion of them, should be allocated by the people themselves and not by the government.



Oil Production in a Social Market Economy Panel Discussion and Contributions by the Audience



By Maike Messerschmidt

A high-level panel discussion with representatives of the government, the private sector, and civil society followed the keynote presentation by Petter Nore and the presentation by Dr Ezra Suruma. Mr Ernest Rubondo (Commissioner of the Petroleum Exploration and Production Department in the Ministry of Energy and Mineral Development), the Hon. Elly Karuhanga (President and Director, Tullow Oil Uganda; Chairman, Uganda Chamber of Mines and Petroleum) and Dickens Kamugisha (Chief Executive Officer, Africa Institute for Energy Governance) shared their knowledge and views with the invited guests, who afterwards also had the opportunity to contribute their arguments and opinions during a lively open discussion.

The Panel Discussion

Ernest Rubondo (Commissioner of the Petroleum Exploration and Production Department, Ministry of Energy and Mineral Development)

Ernest Rubondo opened his remarks by thanking UNCCI and KAS for organising the conference. He also thanked Mr Petter Nore for the insightful presentation that showed how Uganda could benefit from Norway's experience in the oil and gas sector and agreed with Nore's assessment of which characteristics had been crucial in the Norwegian success story. Rubondo stressed again the need for an appropriate legislative framework and infrastructure investments. He thanked Dr Ezra Suruma for his presentation and appreciated it for touching aspects that need to be sorted out if Uganda is to benefit in a great measure from oil and gas exploration and production.

Rubondo then elaborated on the steady strategic partnership between Norway and Uganda in the oil and gas sector that had already begun in 1987. Since then, he



stated, Norway had given Uganda and other partner countries technical assistance in the management of revenues and environmental issues. Though Norway had been a successful producer of oil and gas long before the natural resource was even discovered in Uganda, it was nevertheless very important to understand the different circumstances that exist in Uganda and to explore where the country was coming from and in which direction it was heading.

In order to give some insight into the state of the Ugandan oil exploration and production, Rubondo shared the following facts and details with the audience, who expressed great satisfaction with this first-ever possibility to take an in-depth look at the Ugandan oil and gas sector:

- Since the first discovery of oil in Uganda, 77 oil wells had been drilled. Out of these, 70 actually contained oil and gas. This means that there was a 90% success rate in the exploration of oil. According to the commissioner, that fact was an indicator of the bright future Uganda had in the oil and gas sector.
- The appraised amount of oil in Uganda was 3.5 billion barrels, 1 billion more than was expected so far. The difference in the numbers stemmed from a new appraisal of the wells and furthermore the discovery of new oil sources in the region.
- \$1.5 billion had been spent on the finding of oil and gas so far. That means that the finding costs of one barrel of oil were less than \$1. For Uganda this was a comparative advantage in relation to other countries, where the average finding costs were around \$20 per barrel.
- So far only less than 40% of the potential area where oil and gas deposits are suspected had been searched.
- Over 80 companies had applied for licences for oil production, but until all questions concerning legislation were sorted out, no licences would be given out. In order to be licensed a company had to present a field development plan to ensure that Uganda's natural resources would be used optimally.

Commissioner Rubondo stressed that the above-mentioned developments and achievements had not happened by accident but because of deliberate efforts by the Government of Uganda, that was moving very cautiously in the development of the oil and gas sector.

He noted that the National Oil and Gas Policy had been formulated between 2006 and 2008 to guide the development of the sector and outlined the plan for oil production in Uganda: Within two years time, 3,000 to 5,000 barrels of oil per day would be produced. In order to do that, a small refinery would

be built. After that, upgrades would be made to the production, first to 6,000 barrels per day in five years' time and then to 8,000 barrels per day in 15 years' time.

He stressed that the process of revenue generation would be a gradual one – revenues would trickle in as time progressed – and thereby assuaged Dr Ezra Suruma's worries about the Ugandan government's capacity to plan and utilise revenues coming from the oil boom effectively and to ensure gradual enhancement in the provision of basic services to the people in Uganda as a result of increased gross domestic revenues.

Different countries were endowed with oil deposits far greater than Uganda, Rubondo explained, which implied that the Government of Uganda had to be very cautious and strategic in finding the best way for the development of its oil and gas sector; it should, therefore, not simply copy other countries' models.

He reiterated that transparency and information-sharing on the part of the government had been achieved since a communication strategy was being implemented. The Ugandan parliament had been briefed on the exploration contracts with different companies three years earlier and the contracts had been made available for discussion, as was required by the oil and gas policy.

He, however, reminded the audience that out of the 95 oil-producing countries, only five had so far put their Production Sharing Agreements in the public domain, and suggested that Uganda should be careful about laying open all the agreements it had negotiated so far, since the country needed to cater for its strategic interests and should not compromise its security for the sake of complete transparency.

The Hon. Elly Karuhanga (President and Director, Tullow Oil Uganda; Chairman, Uganda Chamber of Mines and Petroleum)

The representative of the private business sector, the Hon. Elly Karuhanga, complained about the fact that there were unnecessary delays in the exploration of Uganda's oil and cited the example of Ghana, which discovered oil much later than Uganda but had already started the production and that Ghana's GDP had grown by 14% since then. He added that it took the Ugandan government unnecessarily long to sign oil and gas agreements with companies and to develop the necessary legal framework. These delays and the fact that Uganda is a landlocked country where the appropriate infrastructure and bureaucratic procedures for oil production were still lacking, caused fear of making losses on the part of the interested international oil companies.

Mr Karuhanga went on to comment on the work of parliament concerning oil laws and policies. Members



of Parliament not only seemed to lack focus during the discussions, he said, dwelling on sensational topics instead of also talking about technical aspects of the oil industry. He stated that they also caused further delays by setting up commissions of inquiry and issuing programmes to discuss oil laws. Furthermore, only a few Members of Parliament were present when the first discussions on oil and gas were held and, furthermore, the public gallery had been almost empty. He then wondered where the Ugandan public and civil society and non-governmental organisations had been that day and why they did not show more interest in the oil business in the beginning.

The Hon. Karuhanga's assessment of the international oil companies' work was more positive. He noted that Uganda was blessed in having top companies exploring its oil, even though it was a high-risk venture to invest capital in oil exploration because of the uncertain outcome. According to him, Tullow Oil was not only the leading company worldwide in exploring oil – a phenomenal success rate was proof of that – but also a good corporate citizen, since it had offered 20 scholarships in oil- and resource-related courses and programmes for Ugandan students and had, furthermore, invested \$ 45 million in social responsibility programmes. He added that, the scholarships notwithstanding, there was still great need for capacity-building in Uganda.

Another actor that was congratulated by the Hon. Karuhanga was the Department of Petroleum in the Ministry of Energy that, according to him, had done a wonderful job in successfully mapping the oil fields using geological methods. In addition, the department was continuing to offer professional advice on Uganda's oil and gas prospects while attempting to ensure that Uganda benefited as much as possible from the oil and gas business.

He concluded by cautioning that *capital goes where capital grows* and summarised the obstacles facing international oil companies investing in the Ugandan oil sector as follows: Besides the failure to license oil companies, there were also unfavourable delays, unfair treatment, lack of respect, and harassment from political leaders. All that was likely to cause unhappiness and discomfort on the part of private sector oil companies who might, as a result, eventually withdraw their capital from the Ugandan oil sector.

Finally Mr Karuhanga called on all stakeholders to find a balance between the interests of the Ugandan government and the private sector in order to successfully start oil production in Uganda.

Mr Dickens Kamugisha (Chief Executive Officer, Africa Institute for Energy Governance)

Mr Kamugisha contributed the perspective of civil society to the panel discussion. He started by thanking Petter Nore for the paper he presented and stated that it was not only comprehensive but also rich in content.

Then he posed the question of which actions would benefit Ugandans, adding that this was the most fundamental question the Ugandan government had to address if it was to succeed in providing for its citizens. He stated that it did not matter how many barrels of oil Uganda had at its disposal; rather, what mattered was whether those barrels were used effectively and were able to make a difference in the lives of Ugandans. He stressed that unless every effort the government made concerning oil production was geared to the improvement of the welfare of Uganda's population, the oil would turn out to be a curse.

If the government wanted all Ugandans to benefit from the oil, according to Mr Kamugisha, the following tasks had to be addressed: the audit of all institutions, the provision of quality leadership, and improvement in the quality of education and health.

He asserted, furthermore, that it was necessary to invest in capacity-building if Uganda wanted to develop local content and cited the example of Kigumba Technical School, which had the capacity to train students in the oil and gas sector theoretically but not practically. Because of the lack of internship programmes in the Ugandan oil sector, students had to leave the country in order to gain practical experience. He insisted that the best way to train students was to do so at home, in Uganda, since this was where they should be working in the future.

Finally, Mr Kamugisha touched on the issue of the very young Ugandan population that needed to be planned for and absorbed in the workforce. Through accountability and harmonised and strategic intervention this should be possible, according to him, in order to ensure the downstream flow of oil revenues. He concluded that if only that could be achieved, oil production would turn out to be a blessing instead of a curse; then he answered his initial question by stating that this would be the only way to ensure that Ugandans benefited from the oil.



Open Discussion with Invited Guests

In the open discussion with the invited guests three main issue areas were covered: The role and responsibilities of the state and its different institutions; the question of the role that the Ugandan government and citizens should play in the development of the oil sector; and the question of how to invest the oil revenues in order to have all Ugandans benefit as much as possible.

Role of the state and different institutions

One of the invited guests, the Hon. Mukitare, launched the open discussion by suggesting that the Ministry of Energy and Mineral Development should not shoulder all the responsibility by itself, since there were other institutions and ministries involved, such as the National Planning Authority, the Ministry of Education and Sports, and the Ministry of Trade, Industry and Co-operatives. If the right questions were posed to those ministries and institutions, not only the issue of responsibility-sharing, but also that of overlapping roles in the oil sector, could be addressed. For example, the Ministry of Lands was also involved in the process of oil production, since many communities in the areas where oil was found had to face the prospect of losing their land and homes. Therefore, comprehensive reforms in land planning and management were needed and the Ministry of Lands should be fully involved in the

discussions on oil production, just like the Minister of Finance and the Minister for Energy should be present at dialogues like the one organised by KAS and UNCCI.

In general, it was agreed that the role of the state and its different agencies, ministries and institutions should be revisited so as to avoid overlapping responsibilities and competences.

Role of the Ugandan government and citizens

The conference participants urged the Government of Uganda to work towards the achievement of the common good and stop being partisan. All political actors, irrespective of whether they were in government or the opposition or which party they belonged to, should agree that oil is a national resource that should be used in such a manner that every Ugandan would benefit from it. The example of Ghana was cited; in that country oil had been used to benefit the government in power and the strategy for oil production was developed with this in mind. When the opposition later came to power, the strategy had to be revised and this caused a setback for the country.

One participant cautioned that if spending was dominated by the government and no other actors were involved, it was very likely that the government would act according to its priorities and the oil would become a curse. The economy would then be based more on the interests of the government than on those of the private sector and the oil sector would be favoured over other sectors. Only if the government



set clear priorities and addressed the needs of the general population would the natural resources turn out to be a blessing.

The participants in the discussion also wondered whether the public was consulted and informed sufficiently on issues related to oil and gas exploitation since there was very little information on the state of the oil and gas sector in Ugandan society. The fact that the information Mr Rubondo gave the audience was all new was considered a case in point.

Mr Rubondo replied that the government had gone to great lengths to try to ensure transparency and to build trust among the population in its actions and those of the ministry. He stated that consultations with all stakeholders, including the business community, academics, non-governmental and civil society organisations, the general public and – at a higher level – parliament, had been held before the Oil and Gas Bill had been passed.

There was no consensus as to the extent to which the public should actually make decisions concerning oil production. On the one hand, some participants argued that Ugandan society should decide on a development model for its oil and that people should very much be involved in that decision-making process. On the other, one participant stated that people were in general ignorant about certain facts and did not have the knowledge that was needed to make an informed decision. Therefore, a referendum would simply be misplaced; and if the government had the interests of the population at heart, it could be trusted to make the right decisions at the right time in the best interests of the Ugandan people anyway.

Investment of the oil revenues

The question regarding how the oil revenues should be invested was split into two sub-questions – one focused on the need to invest in other sectors of the economy and the other focused on the basic needs of the Ugandan people.

Concerning the other sectors of the economy, it was stated that with oil production came the danger of neglecting other economic sectors, the phenomenon often referred to as the ‘Dutch disease’. This trend might be amplified by the fact that the Ugandan population had high expectations of oil production and, therefore, might be very much willing to abandon the other sectors of the economy that they previously contributed to. It was, furthermore, noted that transforming Uganda from an economy that was mainly based on agriculture into a highly technologised economy would not be an easy task, especially if all other sectors of the economy were to be integrated. The participants in the discussion, therefore, urged the government to act slowly and

cautiously in the development of the oil sector and at the same time to lift up all other sectors of the economy. There was a consensus that this was the only way to achieve meaningful and inclusive development in Uganda.

Addressing this solicitation, Mr Rubondo assured the participants that this already was the case. He said that the Ugandan government was trying to ensure the greatest possible benefit from the oil fields by developing strategic plans regarding how much oil would be taken out of the wells during a certain time span.

Furthermore, he attested that the 90 % success rate in the exploitation of oil wells had not been achieved by accident, but was an indicator that there were bright returns to be expected from oil and gas production in Uganda, which was also the reason why private oil companies should not be impatient but rather look forward to the time when oil production would eventually begin.

Disagreeing with most of the audience and the present government and civil society representatives, the Hon. Elly Karuhanga insisted that Uganda had sufficient capacity to manage the oil and gas sector in a profitable way and that, therefore, all stakeholders – including the government – should move fast and take advantage of Uganda’s leading position in the region.

The Hon. Mukitare explained that agriculture needed more than fertilisers. The oil revenues should, therefore, also be used to invest in mechanisation, production, and capacity-building, especially in the agricultural sector, but also in other economic sectors. He added that that might also prevent the population from abandoning the agricultural sector in favour of the oil sector.

Another suggestion made by the audience was that the oil revenues be invested in the tourism sector, since Uganda had huge potential for attracting tourists but needed to invest in it in order to compete with other African countries, such as, for example, Kenya. One advantage of tourism was that it was not finite, like oil, but would always be a source of wealth for the Ugandan people.

Concerning the needs of the Ugandan people, there was consensus that investments should not only be made in the improvement of the health, education, power supply, and road infrastructures, but also that structural problems such as poverty, unemployment and the high school dropout rate should be addressed.

Only if the oil revenues were used to address all these challenges and problems would the growth generated on the back of the oil sector be inclusive and sustainable.

Mr Suruma even suggested that the Ugandan government should use the oil revenues as a leverage to acquire funds in order to cater for the welfare and infrastructural needs of the society and thereby enhance development. The welfare of those citizens who may not directly benefit from the oil revenues should, especially, be ensured.

Concluding Remarks by the Panellists and Presenters

The panellists and presenters then had the opportunity to highlight some further issues.

The Hon. Elly Karuhanga assured the audience that the private sector was a willing and reliable partner and that the Government of Uganda and all other stakeholders should support the international oil companies and provide an enabling framework in which they could conduct their business.

Mr Karuhanga then lamented that the private sector in Uganda was in pain. He attributed this not only to the insufficient infrastructure, poor planning, and the many delays in concluding agreements between the government and private companies and in the establishment of a reliable legal framework, but also to the fact that Uganda operated different laws from its neighbours in the East African Community. This complicated the operations of the private business sector, made the costs of doing business high, and discouraged investment. He called upon the government and all stakeholders to try and create a favourable environment for those entrepreneurs who were actually willing to invest in the Ugandan oil and gas sector, and to extend a hand of friendship to oil investors.

He castigated NGOs and CSOs for lamenting that oil was a curse and thereby confusing the Ugandan population. He urged them to instead give the citizens the right information that was based on the facts on the ground and not on what literature told them. Finally, he criticised parliament for focusing on what he called non-pertinent issues instead of debating relevant issues such as the oil bills.

He concluded by stating that having a vision – as was the case with Uganda – was a virtue but having a vision without planning was a bad dream, and he stressed to all stakeholders that planning and the implementation of plans should be a priority in oil production.

Dr Ezra Suruma used the chance to thank UNCCI and KAS for providing a perfect opportunity to debate the prospects and challenges of the Ugandan oil and gas sector and called for more occasions to continue the healthy debate and enable information-sharing. Furthermore, he commended the Ugandan parliament for encouraging the debate and for helping to dispel the conspiracy theories that had started to occupy the public domain.

Petter Nore praised the discussion for its good temperament, its intensity, and the wide-ranging issues that had been brought to the fore. He pointed out that the ability to discuss technically and factually and share opinions between different stakeholders were ideals of the social market economy.

However, warned Mr Nore, there would come a time when the talking had to stop since Uganda found itself in a competitive environment and the neighbouring countries were also discovering oil and gas deposits and were sometimes situated more advantageously than Uganda.

Mr Nore emphasised that Uganda should use the characteristics he had named in his keynote presentation as a learning tool. As an example he cited Botswana, a formerly poor country that with a vision, a visionary leadership, a clear political system, and clear set priorities geared towards the improvement of education and infrastructure, had taken a number of giant strides towards development. In his opinion, Uganda too could achieve those developments on the back of the oil and gas sector.

Petter Nore concluded his comments with the advice that Uganda might be able to borrow a leaf from the Norwegian and other countries' experience but, eventually, would have to find solutions to its problems by itself and that international donors might help Uganda in the short run, but in the long run the country would have to lay a foundation of its own for sustainable and inclusive development.





Closing Remarks

Summary of the presentation by the Hon. Amelia Kyambadde

The Guest of Honour, the Hon. Amelia Kyambadde (Minister of Trade, Industry and Co-operatives of the Republic of Uganda) opened her remarks by thanking the organisers KAS and UNCCI, the keynote presenters, panel discussants and participants for the fruitful deliberations and insights with which they contributed to the debate on oil and gas in Uganda.

She went on to express some thoughts on demographic trends in connection with the discovery of oil: at the time of the conference there were around 34 million people living in Uganda, with this figure set to increase significantly in the future. Only 12% of the population lived in urban areas and, owing to the discovery of oil in Hoima, many people who had previously lived in rural areas and had contributed to the agricultural sector would move there to supply services or to work in the oil industry. If that happened on a large scale, other sectors of the economy would be neglected and a drop in production in these sectors would follow.

The Hon. Kyambadde then explained that she expected both negative and positive effects of oil production. The positive effects could include improvement in service delivery and infrastructure, and local government development. On the other hand, she expressed the concern that people would not see the need to work if they gained a lot of money from oil production in a short period of time. Then they would lead a 'laissez-

faire life', a development that would cause even greater damage to the agricultural sector.

According to the Hon. Kyambadde, the oil industry needed to be given special attention because up until today Uganda was importing all major sources of energy such as petroleum or bitumen, which was the starting point for strong engagement of the Ministry for Trade, Industry and Co-operatives in the oil and gas sector. Since the ministry had the vision and mission to harness oil as an industry it would strengthen its role in the sector.

The Minister further noted that the agencies under her ministry should be empowered through capacity-building. In particular, she referred to the ensuring of quality and standards in Uganda's oil industry through the Uganda National Bureau of Standards, the enhancement of the capacity of the Uganda Industrial Institute of Research, the improvement of value addition initiatives in the entire oil industry, and the strengthening of the capacity of the Uganda Export Promotions Board.

The Hon. Kyambadde stressed that small and medium-sized enterprises should be encouraged to enter the oil and gas industry through strategic avenues and policies on the management of oil and gas should be formulated.

She then went on to state the challenges Uganda had to overcome in order to benefit greatly from the oil sector:

- lack of transparency
- insufficient medium- and long-term planning
- lack of adequate capital
- corruption and the dominance of self-interest in the decision-making process
- over-politicisation of every issue and platform
- limitedly skilled labour force
- social and cultural impediments such as poor attitudes
- rural-urban migration
- lack of negotiating capacity on the part of Ugandan stakeholders
- inadequate infrastructure

In order to address some of these challenges and overcome the obstacles on the path to inclusive and sustainable development on the back of the oil industry, the Hon. Kyambadde suggested that the following measures be taken:

- Balancing all interests through consultation and empowerment of all the stakeholders involved.
- Creating and raising awareness among the population on issues concerning oil production.
- Having Members of Parliament ensure transparency and reliability.
- Harnessing the potential of local investors and ensuring investment in other potential sectors of the economy.
- Developing a harmonised regional infrastructure development plan. To illustrate her point she cited the example of plans by Uganda, South Sudan, Rwanda, and Democratic Republic of Congo to each build a pipeline to Mombasa, which was unnecessary, laborious and expensive.
- Providing massive training and capacity-building measures for enhancing local skills. In order to avoid social categorisation, all Ugandans should be given an opportunity to take part in these programmes.
- Creating enterprise centres.
- Following a multi-sectoral approach so that not only the Ministry of Energy and Mineral Development but also other agencies such as the Ministry of Education and Sports are involved in the development of the oil and gas sector, for example through the provision of appropriate training.

- Providing local entrepreneurs with capital, that means taking into consideration the notion of local content.
- Creating more avenues for information-sharing, for example through print media or electronic channels such as the internet, in order to demystify oil production in Uganda.
- Using oil to balance the deficit in exports so that the country imports less and exports more.

According to the Hon. Kyambadde, it would be possible to avoid the 'Dutch disease' if all these tasks were accomplished and if the government was supported not only by the participants in the conference but by the population in general. She also emphasised the need to develop infrastructure and other income sectors in order to provide for the times when oil would no longer be available as a source of income and stated that it was imperative to establish public-private partnerships since the government was not able to manage oil production and revenues on its own.

The minister then cautioned that a certain institutional and structural discipline was vital for supporting the social market economy. She, however, disagreed strongly with Dr Suruma's suggestion that the government should provide universal pensions and free health care for its citizens because, in her opinion, Uganda was not a country where this would be possible; instead she advocated a liberalised economy that depends heavily on people's will to work. She explained that the taxes in a welfare state would be incredibly high for those people who paid them and that in Uganda there had been a dangerous trend of people not wanting to work since Universal Primary Education (UPE) and Universal Secondary Education (USE) were introduced. This trend, she stated, would be reinforced if Uganda became a welfare state and would promote laziness and a bad mentality. Instead of providing for people's personal needs, the government would rather aid them to work.

She commended the Ministry of Energy and Mineral Development, and especially the Department of Petroleum, for spearheading the development of the oil and gas sector in Uganda and applauded their efforts in the work they did to enable Uganda to realise the dream of oil production.

She also thanked the Norwegian government for providing mentorship to Uganda's oil and gas sector and noted that there was still a lot to learn in terms of good governance if Uganda wanted to realise great benefits from the oil and gas sector.

The Hon. Kyambadde expressed her gratitude to the international oil companies for being willing

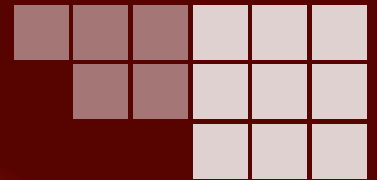


to invest in the Ugandan oil industry and to the president and the NRM for providing a stable and secure environment that enables the companies to do business in Uganda.

Finally, she thanked UNCCI and KAS for organising the conference on oil production in a social market economy, since oil production in Uganda was an issue that often evoked criticism, accusations, and suspicion that the oil sector and revenues might be mismanaged. She urged that the debate should continue so as to enlighten Ugandans about the pertinent issues of oil, gas, and other sectors.

The minister concluded her speech by indicating that Uganda as a country should be optimistic that handling the challenges it faces was feasible and that it would grow economically, politically, socially, and technologically in order to fully benefit from the prospects of oil production.





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