



Farmers in Uganda's Oil Economy: Deal or no Deal!

Scenarios for Danger and Redemption: It's a Choice.

MORRISON RWAKAKAMBA
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AGENCY FOR TRANSFORMATION
Reimagining agricultural and environmental policy

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This publication is a result of several months of research and introspection of authors enriched by discussions, interactions and suggestions of numerous economists, public policy analysts and practitioners across Africa – and the globe. The authors are particularly grateful to Ms Holly Jean Buck of Cornell University, USA, for editing the original manuscript and Mr Boaz Kezeire Blackie of African Union, for providing comments and suggestions. Authors would also like to thank the entire team at the Agency for Transformation (AfT) for facilitating sometimes intense discussions and providing assistance for formatting and designing of the publication. The Fund for Global Human Rights is also appreciated for providing financial resources necessary to make this work happen.



It is a great pleasure for me to endorse this very timely document that takes the interests of Ugandan farmers at heart. I wish to congratulate *Agency for Transformation* for taking the initiative to bring to light the dangers that can befall Uganda's farmers if the new oil industry is not managed properly, and more importantly, the tremendous opportunities that the oil industry can present to farmers and their enterprises. Over the recent years, we at *Uganda Farmers Federation (UNFFE)* have expressed concern over the plight of farmers in our economy because agriculture seems to be getting more and more marginalized. Yet, as everyone knows, the majority of Ugandans are smallholder farmers and agriculture is the mainstay of the economy. This paper fully expresses our inner voice and indignation towards land, environmental and socio-economic consequences that might negatively affect the farmer as a result of oil drilling, refining and marketing. It is an important source for us farmers to know our situation and hence voice our concerns to government, donors and other key stakeholders. UNFFE will work with *Agency for Transformation* to take these messages to the entire farmers' fraternity. Oil companies, private sector actors and key policy makers will do well to heed the messages declared in this document. If the counsel is well followed, Uganda's oil will definitely be a real blessing to the farmers in particular and the country as a whole. The possibility of a 'resource curse' shall also be completely forestalled. Let the reader read on, reflect, and act where possible.

A handwritten signature in black ink, appearing to read "Hilton Ogang", enclosed within a simple, hand-drawn oval shape.

Charles Hilton Ogang

President – Uganda National Farmers Federation

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LIST OF ACRONYMS

CET	Common External Tariff
CNOOC	China National Offshore Oil Corporation
CSO	Civil Society Organization
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
GDP	Gross Domestic Product
NAADS	National Agricultural Advisory Services
NAPE	National Association of Professional Environmentalists
NEMA	National Environment Management Authority
PWYP	Publish What You Pay
SWF	Sovereign Wealth Fund

Uganda is on the verge of exploiting oil and gas resources in the Lake Albert Rift Basin. Oil wells are being sunk and a refinery is slated for construction, despite some occasional brushing of shoulders between government and oil companies. A windfall of revenues from oil and gas is expected any time from the year 2015 onwards for the next twenty or thirty years. Uganda government, the private sector and other stakeholders hold that non-oil industries will sprout up and jobs will be created. The structure of the economy will change, with oil becoming the major contributor to Gross Domestic Product (GDP). Consequently, there is a possibility that agriculture may suffer from neglect just like in many African oil producing countries. The foregoing expectations have already inspired development of policy and legal documents aimed at ensuring that the oil and gas resources and revenues are openly and transparently managed. Over years, the share of agriculture in Uganda's GDP has declined, while those of industry and service sectors have relatively increased. This would not be considered bad per se, if growth in service and industrial sectors create more jobs in these sectors while releasing unproductive labour from the agriculture sector. However, based on current employment statistics, 66% of the labour force is still stuck in agriculture. This means that this structural transformation is not happening. Trends in Uganda's budget allocation already indicate that the agricultural sector is getting less attention from planners at technocratic and policy levels, since the sector receives less than 4% of the entire national budget.

The fortunes of Ugandan farmers under the new 'oil economy' are not very clear. The oil industry may hurt the agricultural sector further and prove to be an anathema to farmers who are the majority of Uganda's population. Some analysts argue that, if not prudently managed, the oil revenues can lead to a 'natural resource curse', as is the case with many African oil producing countries. For example, oil revenues can exert a negative impact on growth through having deleterious impact on institutional quality through rent-seeking and corruption; exposing the country to volatility, particularly in commodity prices; and making the country susceptible to Dutch Disease (the tendency for the real exchange rate to become overly appreciated in response to positive shocks), which leads to the contraction of the tradable sector. In addition, oil resources can considerably increase the chances of civil conflict in a country by affecting institutional quality (Sala-i-Martin and Subramanian, 2003). There are also worries about oil spills or contamination, which could displace populations and wildlife and damage water sources. Like in other African oil producing nations, if unchecked, speculative tendencies by a few corrupt elite with access to illicit oil money may lead to huge countryside land purchases and in effect drive poor and small holder farmers out of their lands. Optimistically, if prudently managed, oil has the potential and vitality to spur Uganda's economy and push the country to higher levels of development which countries like Norway have reached. However, this will only happen if there is strategic investment in non-oil sectors such as agriculture – which remains a dominant sector.

Investment in agricultural modernisation, energy, education (skills development), transport infrastructure, tourism (agro-tourism), health, and environmental conservation is key. Through these strategic investments, farmers will be able to produce more and sell more, and consequently increase household incomes—therefore increasing aggregate demand, which is key in stimulating the economy.

To counteract currency appreciation, the country will have to increase domestic production (especially of foodstuffs) and demand. Uganda will also have to leverage the Eastern Africa Community to set the common external tariff (CET) regime for sensitive agricultural commodities like maize, rice, fruits and other oil seeds to protect local farmers from cheaper food imports. For example, the CET of 75% for rice needs to be maintained in Uganda and in the region. Should Kenya, which is now the largest importer and supplier of rice in the region, continue to stay application then it may be prudent for Uganda to charge rice from Kenya at 75%, which corresponds to the EAC CET rate. This is likely to benefit farmers, close the competitiveness gap of Ugandan farmers, and increase people's welfare and wellbeing. However, this measure will have to be implemented within a given time frame agreed upon with other EAC partner states. This paper provides a critical independent analysis of the above-mentioned issues and offers insights on how the agricultural sector can benefit from oil and avoid the resource curse. The paper also highlights, with vehemence, the costs of not taking action.

Highlights of key deductions:

- Leverage the Eastern Africa Community to set a common external tariff regime for sensitive agricultural commodities like maize, rice and other oil seeds to protect local farmers from cheaper food imports. This will be a strategic deterrent against expected currency appreciation driven by substantial amount of oil revenues.
- Manage the potential effects of displacement of farmers, unfair compensations, and land evictions.
- Manage environmental hazards such as flaring and venting; oil spills; land, air and water contamination; acid rain; health risks; and climate change.
- Use oil revenues to capitalise the Uganda Development Bank and other local banks to push down interest rates for small holder farmers and small scale and medium enterprises to easily access agricultural credit.
- Regulate local content to ensure that small holder farmers can benefit from oil companies and their auxiliaries through of agricultural products and other value addition activities.
- Ensure that government fulfills the Maputo Declaration of allocating 10% of the national budget to agriculture with a broader objective of achieving and sustaining a 6% growth target.

1.0 INTRODUCTION

1.1 BACKGROUND AND RATIONALE

Uganda's National Development Plan (2010/11 - 2014/15) identifies agriculture as a key sector contributing to exports, employment, and food security. Agriculture provides the basis for growth in other sectors such as manufacturing and services. The sector is also the basis for much of the industrial activity in Uganda, since most industries are agro-based. The sector is the biggest source of foreign exchange and is a major source of saving and investment for many Ugandans. The agriculture sector is still the biggest earner of export revenues: in 2011, exports of primary agriculture commodities comprised 55.2% of Uganda's formal export earnings. The biggest contributors to exports are largely coffee, fish and tobacco.

Most households directly or indirectly derive their livelihood from agriculture, and over 60% of Ugandans are employed in the agriculture sector. The Uganda National Bureau of Statistics revealed that 66% were employed in the primary sector (Agriculture, Fisheries, Forestry etc.), 28% were employed in services, while 6% were involved in manufacturing. Seventy-six percent of Uganda's labour force is self-employed, while 24% are employed by others (UBOS statistical abstract 2012). Despite the importance of agriculture in the economy, the sector's performance has not been impressive in recent years. The share of agriculture in total Gross Domestic Product (GDP) has declined over the years from 23.8 percent in FY 2003/04 to 13.9 percent in FY 2010/11. Whereas the industrial and services sectors have in some years hit a 10 percent growth rate, the growth in the agriculture sector has consistently remained largely in reverse gear. Real growth rate in agricultural output declined from 7.9 percent in 2000/01 to 0.1 percent in 2006/07. The sector has since then recovered and grew at 3.0 percent in 2011/12. The performance of the fishing and food crop sub-sector has been very dismal, registering the lowest growth rates over the last five years (Table 1). Whereas the contribution to the economy of the service and manufacturing sectors is increasing, their share of the labour force is falling. The percentage of labour force employed in the manufacturing and service sectors has been decreasing over time (NPA 2010). The inelasticity of labour movement from agriculture to other fast growing sectors such as services is a clear indication of the stalled socio-economic transformation of the Ugandan economy.

Table 1: Sectoral Growth Rates and Shares in GDP 2003/04 – 2011/12

Sector	2007/08	2008/09	2009/10	2010/11	2011/12
Sector Growth Rates					
Agriculture	1.3	2.9	2.4	0.7	3.0
Cash crops	9.0	9.8	-1.1	-6.5	16.2
Food crops	2.4	2.6	2.7	0.7	1.0
Livestock	3.0	3.0	3.0	3.0	3.0
Forestry	2.8	6.3	6.3	2.8	3.6
Fishing	-11.8	-7.0	2.6	1.8	2.0
Industry	8.8	5.8	6.5	7.9	1.1
Services	9.7	8.8	8.2	8.4	3.1
Sector Shares in total GDP (at constant -2002prices)					
Agriculture	16.6%	15.3%	15.1%	14.5%	13.8%
Cash crops	8.3%	9.3%	9.7%	9.4%	9.9%
Food crops	54.5%	55.9%	57.4%	58.9%	58.1%
Livestock	8.7%	9.0%	9.3%	9.5%	9.8%
Forestry	17.1%	17.9%	18.9%	19.3%	19.7%
Fishing	11.3%	10.3%	9.5%	9.8%	9.9%
Industry	24.5%	25.6%	24.7%	25.1%	25.6%
Services	49.7%	49.7%	50.7%	51.9%	52.3%
Adjustments	9.2%	9.3%	9.5%	8.4%	8.3%

Source: MFPED, Background to the Budget and UBOS, Statistical Abstracts (various years).

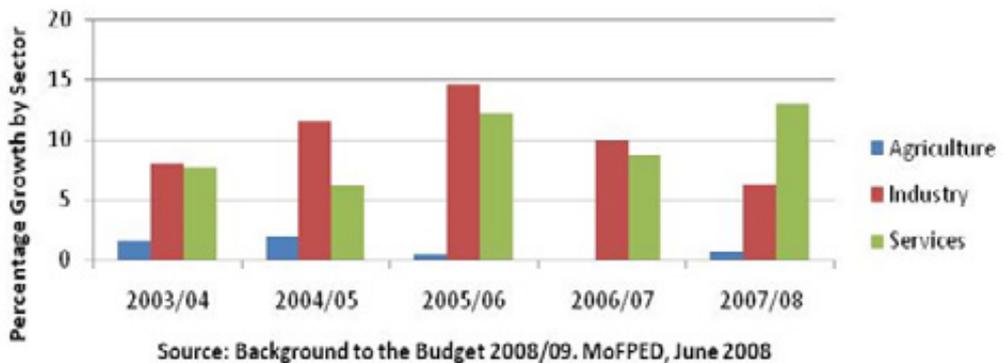
There are many factors limiting growth in agriculture. A study by Benin et al (2007) showed that the shortage of capital and credit is the single biggest constraint to improving farming. Despite some efforts, government is not investing enough resources in providing credit to farmers, but neither are risk averse private banks lending in sufficient quantities. The result is a massive gap in funding for agriculture that is locking millions of small holder subsistence farmers in a poverty trap. Without access to loans, farmers are unable to invest in future production, to expand their farming or to take risks (Action Aid 2007). Only around 10 percent of rural Ugandans have access to financial services such as credit (MAIF 2009). Lending to agriculture constitutes only 5 percent of commercial bank credit in Uganda, a percentage which has been falling in recent years (MFPED 2009).

Moreover, there are several challenges involved in marketing agricultural produce in Uganda. There is limited access to market information, the literacy level among the farmers is low, and multiple channels of distribution drain the pockets of both farmers and consumers. The government funding of farmers is still at a nascent stage, and most of the small holder subsistence farmers still depend on the local moneylenders who charge high interest rates. There are too many 'vultures' that eat away the benefits that farmers are supposed to get. There are

several loopholes in the present legislation and there is no organized and regulated system for marketing the agricultural produce. The farmers have to face many hardships and overcome several hurdles to get a fair and just price for their sweat.

Government agencies are the main source of information on agriculture for communities. However, support provided for marketing agricultural products and for providing inputs like seed is very weak. Most farmers use direct marketing, with only 37.5 percent getting a fair price. More than 50 percent of farmers reported the loss of cattle or crops (World Bank 2009). The above challenges are compounded by the fact that budgetary allocations to the agricultural sector have not kept up pace with the growth in public expenditure, as can be seen from the trends depicted in Figure 3.1. The agricultural sector is among the lowest ranked sectors in the national budget architecture. The budget for public administration and public sector management has grown rapidly over years and in addition, it claims a lion's share of supplementary budgets, which negatively affects budget allocations and releases to other sectors, especially agriculture

Figure 1: Annual Growth of Selected Sectors (2003-2008).



With the foregoing trend, the new oil industry presents several new challenges to the agricultural sector. These range from issues of land ownership, displacement, channelling petroleum benefits to agriculture, environmental concerns, distortions of prices in products and money markets, and overall dwindling of the agricultural sector, which may be quite detrimental to the country's economy in the long run. Addressing these issues and forestalling potential risks is the concern of this study.

The graph above shows the centrality and importance of agriculture in Uganda's economy. However, in spite of heavily capitalized programs like the National Agricultural Advisory Services (NAADS), for the past 12 years the agricultural sector has lagged behind other sectors, registering a growth of just 1.3 percent (see figure 1). The paradox of this trajectory is that the country is witnessing a dramatic shift in the transfer of wealth from the majority of Ugandans who are mainly engaged in agriculture, to a minority portion of those engaged in services and industry sectors.

This paper argues that prudent and strategic use of oil and gas revenues will lift these 4.2 million farmer households to commercialization and prosperity.

1.2 PURPOSE OF THE PAPER

The purpose of the paper is to explain the potential direct and indirect effects of Uganda's oil industry on the agricultural sector. The specific objectives of the paper are:

1. To provide a brief and simplified recap of the past and present efforts to exploit oil resources found in Uganda.
2. To highlight the potential impact to small holder farmers in the new oil economy.
3. To examine the regulation of the oil industry, including the pertinent laws, policies and provisions for management of oil revenues in a manner that favours small holder farmers, and enhances human and social development.
4. To highlight the economic opportunities and risks presented to the agricultural sector by the oil industry, and the measures needed to be taken by farmers themselves and other relevant stakeholders.

2.0 PAST AND PRESENT OIL EXPLORATION IN UGANDA

2.1 UGANDA OIL IN EARLY TIMES

Oil seeps in Uganda were found in Bunyoro as early as 1877 by Emin Pasha (Guweddeko 2000). In 1890, Frederick Lugard gave the oil seeps to his Imperial British East Africa Company. Initial exploration efforts at Kibiro oil seep were halted by World War I. British companies that attempted to explore for oil in 1921 after the war made little progress due to 'financial constraints'. In 1926, the colonial government entered into a venture with the Anglo-Persian Company to prospect and produce oil. In order to advance this joint venture, the colonial government announced plans to construct a pipeline from Lake Albert to Wakiso, near Kampala. However, the venture came to a standstill due to the Great Depression of the 1930s. Later on, African-European Investment drilled several test wells in the Semiliki basin and found promising prospects, especially in Butiaba (Kashambuzi 2000). As way to prepare for better management of oil revenue, a Petroleum Act was passed by the colonial government in 1957. After Uganda's independence in 1962, Obote's government gave oil exploration rights to Shell. But Obote's regime was overthrown by Idi Amin who first gave rights to three British companies but later on expelled all people of British and Asian origin from Uganda. When Obote returned to power in 1980, the government of Uganda undertook aerial magnetic surveys of the Albertine region, with support from the World Bank. Later, potential foreign investors paid scanty attention to the area, due to lack of sufficient data and political instability. All the same, a *Petroleum (Exploration and*

Production) Act was passed into law in 1985 by the Obote regime, and a *Petroleum Unit* was established within the Geological Survey and Mines Department of the government.

2.2 UGANDA OIL UNDER THE NRM GOVERNMENT

When the National Resistance Movement (NRM) took over power in 1986, the government was very cautious and reluctant to sign oil exploration contracts with Shell and Exxon (Kiiza et al. 2011). H.E President Yoweri Museveni also suspended all negotiations for licensing until some Ugandans could be trained and credentialed in petroleum matters in order to negotiate agreements that would not be disadvantageous to the country (Kashambuzi 2000). From 1986 to 1990, the *Petroleum Unit* did very little field work. But, in a capacity building bid, staff were sent for specialist training in the UK, Norway, USA and India. In March 1991, the government signed an oil Production Sharing Agreement (PSA) with an oil company Petrofina. But the agreement expired in March 1993 without the company completing its work obligations. A similar PSA signed in February 1995 with a US based company called Uganda Works and General Engineering Company was cancelled by the government in March 1996 because of the company's failure to perform to expectations of the government. Under another PSA signed in January 1997, the government gave Heritage Oil & Gas some exploration rights in the Semiliki basin and the southern part of Lake Albert. The government has also signed PSAs with other companies, namely Hardman

(2001), Neptune Petroleum-Uganda (2005) and Dominion Petroleum (2007). Neptune was not so lucky; it drilled three oil wells and found all of them dry. Hardman sold some of its stake to Energy Africa, who in turn sold the stakes to a British company Tullow Oil Plc. Later on, Tullow bought all the remaining Hardman's stakes. Oil leviathans, i.e. France's Total and China's CNOOC, have since come on the scene in partnership with Tullow Plc. Tullow signed an early production agreement with the government in 2006, and by 2008 it had already dug five wells that were found to have plenty of oil and gas, although the methane gas found is said to have too much carbon dioxide for commercial exploitation (which raises concerns about venting and flaring of the released gases). Relations between the government and Tullow have not been quite smooth. There has been a squabble over payment of capital gains tax on acquisitions bought by Tullow from other oil companies. This case ended up in the United Kingdom for arbitration, which also raised bribery allegations against senior government officials.

H.E President Museveni ordered special investigations into these bribery claims, and investigations are ongoing. Another bone of contention has been the construction of a large oil refinery in Uganda instead of a small refinery supplemented with a major pipeline to pump crude oil out of the country as advocated for by the oil companies. The government firmly insists that the oil must be refined in Uganda to ensure value retention and maximum economic benefits to citizenry. Despite the above contestations, oil and gas exploration is ongoing and the country is set for oil production. More than 3.5 billion barrels of crude oil have been discovered in the Lake Albert rift basin, of which 1.2 billion are said to be recoverable. Forty percent of areas with potential oil deposits have been explored so far. Oil production is scheduled to start in 2015, and it is estimated to eventually reach a peak output of 200,000 barrels a day. A refinery is being constructed with scheduled capacities of 20,000 barrels, 60,000 barrels and 120,000 barrels by the years 2015, 2017 and 2020 respectively .

3.0 UGANDA OIL INDUSTRY AND THE FARMERS

3.1 WHO ARE SMALL HOLDER FARMERS?

Despite rapid urbanization and the increase of large-scale commercial farming, much of agriculture around the globe is still in the hands of small-scale producers. Smallholders' large numbers have helped to draw international attention to their problems and potential. Most commonly, definitions of small-scale agriculture are based on farm size; many sources, including the International Federation of Agricultural Producers, count landholdings of two hectares or less as small farms. By this measure, there are at least 450-500 million small farms, representing 85 per cent of the world's farms (Nagayets 2005); Proctor and Lucchesi's review (2012) suggests the number may be even larger. These farms are thought to support — partly or completely — a population of roughly 2.2 billion people, or one-third of humanity (Singh 2012). In Uganda, most of the farmers are not only small holder but subsistence — growing food for merely household consumption, and not for the market. The Uganda National Household Survey (UNHS) 2005/06, conducted by the Uganda National Bureau of statistics, estimated the numbers of agricultural households (Ag HHs) to be 4.2 million, which was 78.8 per cent of all households. This was an increase of 26 percent from the number reported in UNHS 1999/2000. Out of the 4.2 million agricultural households in Uganda, 3.3 million (or 78.7 %) owned land, while another 2.2 million agricultural households (52.6 %) had access to land with only use rights. The national average agricultural household land under use

rights was 0.4 Ha while the national average agricultural household land owned was 0.9 Ha. The vast majority of Ugandans are smallholder subsistence farmers growing crops such as bananas, cassava, maize, millet, sorghum and rice for their own subsistence. While it is claimed that ample rains and relatively rich soils make the country a potential breadbasket for the region, most of the smallholder subsistence farmers are trapped in poverty. The food security situation has been unsatisfactory since 1992. For instance, the country's average caloric intake per person per day was 1,971 in 2005, less than the World Health Organization's recommended daily intake of 2,300 per adult per day.

3.2 POTENTIAL IMPACT OF OIL REVENUES ON SMALL SCALE FARMERS

Lack of information on Production Sharing Agreements (PSAs) makes it hard to know how much the country will collect from the oil and gas revenues. Most of the current figures are based on estimates. For instance, if Tullow and partners fulfil their pledge of producing 10,000 barrels of oil per day by 2015, Uganda will then be earning \$11,839,200 per month . This takes into account royalties, recoverable costs, profit sharing, and taxes on the oil. Given that Uganda's Gross Domestic Product (GDP) in 2015 is likely to be about \$20.4 billion , it follows that by 2015; oil will contribute about 0.06% of Uganda's GDP. If Uganda could produce 60,000 barrels of oil per day, which is the initial planned capacity of the refinery, the foregoing figures would yield

about \$0.851 billion per year, which would be about 4.1% of the GDP. Going by these figures, at the peak output rate of 200,000 barrels per day, the oil would contribute 13.7% of GDP, which is actually a high end estimate because it ignores the accumulated growth in other sectors to GDP by that time. The Uganda's Vision 2040 Section 4.1.3 (87) estimates that oil and gas contribution to Uganda's GDP will be 4% by 2020, 37% by 2030 and 74% by 2040. While the 4% of year 2020 seems conservative, the other figures are obviously too optimistic and make it appear as if the oil economy is going to crowd-out all the other sectors, including agriculture. There are a number of potential risks associated with an oil-based economy, which does not invest in agricultural development. Some of them are discussed below:

- Oil is a non-renewable resource; at some point in time, oil and other mineral resources will be depleted. Without agriculture, the economy will then be left in a vacuum and be consigned to a net food importer status. This will have negative implications for the economy and national security.
- With growth in population, industries and services, the demand for food will grow higher and the country will lose by becoming a net importer instead of exporter of food. Gabon, for instance, is experiencing similar challenges
- Oil rich regions are prone to demand for secession or federal status. If Bunyoro ever succeeds in that, both Bunyoro and the remaining regions of Uganda will be punished for abandoning agriculture (as it has happened for instance between Sudan and South Sudan).
- If agriculture is neglected, the opportunity for Uganda to serve as a 'food basket' for the entire region will be forfeited forever, together with the potentially high revenues, foreign exchange and contribution to GDP. It is important to note that land is a critical asset of the small holder farmers. However, with the speculative behaviour which is usually induced by oil revenues, the country might put itself in a situation where rich capitalist and oil magnates

buy off most of the small holders farmers' land at cheap rates for speculative purposes or to establish modernized large scale commercial farms. Energetic persons would then flock to urban areas, many of them ending up in slum dwellings, while those who stay in the villages are reduced to cheap and oppressive labour on the large farms. Meanwhile, the 'modernized' rural roads and other infrastructure would be used to ferry off agro produce to make the wealthy farm owners richer and more powerful. This is based on the assumption that oil revenues are invested in the country.

- Energetic young people, most of them semi-literate, might abandon agriculture for illicit trade in oil and gas products. This will be fuelled by the fact that such deals are more profitable than farming. This is likely to harm the agriculture sector more, since labour will be shifted from farming to the oil sector.
- There is potential for conflict, which might arise when the uneducated youth might be targeted by warlords to engage in illegal activities such as "hijacks" for ransoms. This has a potential negative impact on agriculture.

3.3 BOOSTING THE AGRICULTURAL SECTOR

If prudently utilised, oil will lead to the following benefits to the farmers:

Better infrastructure for accessing markets

The oil industry brings a high potential for improving infrastructure if oil revenues are prudently managed and invested in the non-oil sectors. This can be very beneficial to the agricultural sector. As oil is being refined here, bitumen for making tarmac roads may become cheaper, and road networks throughout the country could be greatly improved. This will make it easier for small holder farmers to transport their produce to markets in urban areas and beyond— and move inputs to their farms easily. Oil will also make available resources to build efficient

railway network to cheaply ferry agricultural produce to neighbouring countries and ocean ports, this will inevitably increase small holder farmers' incomes. Farmers may benefit from this highly improved transportation capacity through easy marketing of their products.

Petrochemicals for agriculture

Petrochemicals are organic products that are not burned as fuel. Olefins and aromatics are two of the major classes of petrochemicals. They are building blocks for a host of other extremely useful products including solvents, plastics, adhesives, resins, lubricants, elastomers, fibres, paints and gels. For the small holder farmers, urea is one very important petrochemical derivative because of its use as a fertilizer. It has become more important than ammonium phosphate because it is an organic compound with higher nitrogen content. Urea is also much easier to handle and apply than ammonium phosphate which tends to explode when stored in large quantities. Small holder farmers only have to take care that seeds are not affected by biurets from the urea. Many farmers in Uganda are already using human and animal urine as a source of urea, showing that there is already a great demand for urea fertilisers. The product can also be exported to other neighbouring countries.

Demand for more food

As new urban centres spring up and the economy booms, there will be increased economic activity and demand for more food. Locally the foods may fetch good earnings because of the strength of the currency. Food tastes will also change, however, due to real exchange rate appreciation, and the potential for cheap food imports is real, with immense ability to hamstring incentives for local production. For example, there will be more demand for fish, poultry products and meat (because people who could afford meat just once in a while will be able to buy meat on a daily basis). There will also be increased demand for processed foods of various tastes due to changed

lifestyles. Increased awareness of health issues will create more demand for organic food products, which is still good news because the urea discussed above is an organic (though manufactured) compound. All this means more potential income for small holder farmers.

Cheaper machinery

Foreign exchange earned from the oil will make it cheaper to buy all kinds of farm machinery from abroad. A stronger local currency will make imports for farm inputs cheaper. This could for example include farm implements, tractors, harvesters, storage facilities, cooling cabins, water pumping and irrigation equipment, etc. The negative side of this is that incentives for local manufacturing of these farm inputs will fizzle. However, low cost inputs will make the agricultural sector more productive and contribute to what has so far been an elusive dream of "modernizing and commercializing agriculture" in Uganda. However, there are also negative impacts such as:

Displacement of small holder farmers

There are no official estimates of the number of people who will be displaced from their land by the new oil and gas industry in Uganda in the present, near and far future. However, for the oil refinery, about 8,000 people, who are largely small holder subsistence farmers will be evicted from their homes and farms to



Fig.3 A Ugandan points at her farm which she is losing to the refinery, Photography By Shawn Mubiru

make way for the refinery . 29 square kilometres (the size of 3,500 football pitches) have been marked off for the oil refinery project which will also include an airstrip, shopping malls and apartments. Geological surveys and feasibility studies have concentrated on the oil in the ground and the revenues from it without due consideration of the people who will have to abandon their land, houses, farms and other occupations due to upstream, mid-stream and downstream activities of the oil industry. For example, thousands of small holder farmers around the Albertine oil area make their living from farming and fishing. What will happen to farming and fishing communities that are displaced due to the industry and its pollution of the land and waters? Meanwhile, the farmers will forfeit their land and farm crops. Some will be compensated, whereas others will be relocated. Key issues of concern here are:

- Whether adequate compensation will be made for displaced people to build new homes, and make new farms. Some officials are urging people to turn to businesses other than farming. They tell them that non-farming businesses will be more profitable. Most of these small holder subsistence farmers, have known farming all their lives. Will the robotic shift to non-farm businesses be possible? Or they will be transformed into causal labourers and beggars?
- Accuracy in land measurements and valuation. Most of the local populations just estimate the size of their plots by sight. A plot of 5 acres may be reported as 3 acres or 7 acres. The local populations cannot afford to hire their own surveyors. They suspect that land surveys by those who want to compensate them underestimate the size of their plots. Measurements are often carried out when the actual land owners are absent.
- There are concerns about the places where the displaced people will be relocated. Some fear that they will be forced out of their highly productive fertile soils with good rains to be settled in remote arid places such as Karamoja.



Fig.4 small holder farmers meet leaders over being displaced from their land, Photography By Shawn Mubiru

- Leaders and authorities are being grilled by local communities over land issues. Some farmers believe that leaders are bribed heavily by oil companies to coerce them into carelessly losing their land rights. Negotiations are done in towns and offices when the actual owners of the land are not present.
- Dissatisfied and disgruntled displaced small holder subsistence farmers are a threat to peace and national security. For example, thousands of people perished in the Niger Delta due to resource-related conflicts. Such scenarios need to be prevented.

4.0 OIL INDUSTRY REGULATION AND SMALL HOLDER FARMERS

4.1 WILL THE CURRENT OIL REGULATIONS HELP SMALL HOLDER FARMERS?

Controversy is bound to arise wherever oil is being exploited due the economic power that the oil industry possesses. This “economic power” tends to overwhelm both operators and regulators to the point that little or no attention is paid to pertinent concerns such as civic rights, land rights, enterprise rights, social welfare, health, safety and environmental issues. It takes a proactive regulatory regime and a robust governance system to address these concerns and safeguard the economy from the adverse effects of the petrol economy.

Current status of the legislation The Petroleum (Exploration, Development and Production) Bill 2012 was passed by the parliament of Uganda on December 7th, 2012 amidst controversy. It includes the contentious Clause 9 that vests power in the hands of the Minister of Energy and Mineral Development to issue and revoke licenses to companies wishing to do business in the oil and gas sector. A section of legislators took the view that such powers should be vested in a Uganda Petroleum Authority. A second bill entitled ‘Petroleum Refining, Conversion, Transmission and Midstream Storage Bill 2012’ was passed on February 23, 2013.

Hoima Women Complain Against Oil Refinery

The National Association of Professional Environmentalists (NAPE) facilitated a petition by a women’s group in oil refinery-affected communities to their female MP highlighting how government issued an order stopping all people in the refinery area from growing food crops that have a cropping period of more than four months. Yet their staple food (cassava) takes over a year to get ready. The group reported already suffering serious food shortages and lack of money to pay fees for their children and meet expenses of other essential commodities such as paraffin, clothes and salt. Food shortages were also reported to be causing domestic violence and break up of families when husbands return home and find no food.



Fig.5 Area MP talks to affected women, Photography By Shawn Mubiru

Key issues of concern under the current regulatory regime. The key issues of concern in the current petroleum laws can be summarized as follows (HURINET 2012) :

- Excessive powers given to the minister concerned without checks by Parliament and consultations with other interested key stakeholders, like farmers and private sector operators.
- Restrictions on accessing information about the oil industry, which is likely to hinder transparency, accountability and economic competitiveness.
- A vague definition of what amounts to “national interest” when the plight of farmers who are the majority of the population is not clear.
- Inadequate provisions for environmental, health and human rights concerns.
- Absence of provisions for costs of relocation, resettlement, disturbance of traditional lifestyle patterns, loss of employment and other losses that may come with displacement or eviction of small holder farmers from land caused by the oil industry.
- Lack of adequate provisions for “local content” and local benefits (i.e. development and promotion of local skills, competencies and citizen ownership throughout the oil value chain processes) and absence of convergence and clarity between the generated “local content” and agriculture.

4.2 ENVIRONMENT MANAGEMENT AND AGRICULTURE

Ugandan Farmers Could Take Action Like The Nigerians Did

Four Nigerian farmers and the environmental group Friends of the Earth filed a lawsuit in 2008 in the Netherlands - where Shell has its global headquarters - seeking reparations for lost income from contaminated land and waterways in the Niger Delta region. The Niger Delta has about 31 million inhabitants and is the main source of food for the impoverished, rural population. The farmers and fishermen said they could no longer feed their families because the region had been polluted by oil from Shell's pipelines and production facilities. The case was won and the oil company was sentenced to pay damages.

Oil Spills

Oil spills are dangerous to the environment because they release toxic compounds. In human beings, these toxic compounds lead to cancer, abortion, dermatitis, fungal infection, headaches, and nausea when the contaminated water is used in food, drinks or for bathing. Oil spills destroy aquatic life such as fish, corals, amphibians, and birds that come in contact with them. On land, oil spills render the soil unsuitable for plant growth by reducing the availability of nutrients or by increasing toxic contents in the soil.



Fig. 6 Hands and fish drenched in spilled oil Photo by Walugembe Genza

While dramatic oil spills get wide attention, the more subtle one caused by notorious dumping of oil waste by oil companies frequently go unattended to. The Uganda Petroleum (Exploration and Production) Act makes provisions regarding the management of oil waste and protecting the environment: for example, saying that that the toxic effects are to be regularly measured to ensure that they do not exceed safety limits set by international environment protection agencies. The following points are worth emphasizing:

- Oil spills and waste lavishly washed into Lake Albert will destroy fish life and other aquatic species, thereby highly endangering the livelihoods of fishing and farming communities around the lake.
- It should be remembered that Lake Albert and its surrounding eco-system do not belong to Uganda alone. Contamination of international waters could spark tensions with the

Democratic Republic of Congo.

- Oil spillage on land and waters leaves dangerous chemicals which are very costly to remove and can continue doing harm for several decades. Some effects are irreversible (e.g. the destruction of coral reefs by the oil spills of the Gulf War).
- Even the success story of Norway's oil economy is currently being marred by controversies over its oil spills in the North Sea. Uganda needs to take proactive measures.
- Although the Petroleum (Exploration and Development) Act provides for liability for damages caused by oil discharge pollutions, it is not clear on how the extent of pollution will be assessed and how frequently. Moreover, the Act is blind to the fact that environmental damage occurs on a wide scale which might not make it possible for oil companies to compensate farmers and the whole country or region for the damage done. Therefore more stringent measures are required to prevent possible damage.

Flaring and Venting

Crude petroleum usually occurs together with other gases. If the gases are not profitable to process, oil companies will just burn them off (i.e. flare) or simply pump off the gases and let them escape into the air (i.e. vent).

Either option is extremely dangerous to the environment. The gases released containing hazardous substances such as carbon dioxide that causes 'greenhouse' effect global warming, ground-level ozone and carbon monoxide that cause serious health hazards, and sulphurous and nitrogen oxides that can form 'acid rain' that is dangerous to crops, vegetation, lake fish life and the skins of living beings.

Flaring has been associated with reduced crop yield and plant growth on nearby farms and destruction of wild life in the immediate vicinity. Flaring and venting occur during other operations of oil plants such as plant maintenance and releasing excess pressure from the drills.

The Petroleum (Production and Development) Act has some provisions to control



Fig. 7 Flaring

flaring and venting. But since the wells have been found to have a lot of gases that are not commercially viable at present, implementing the laws is likely to be a great challenge. The

best option is to still endeavour to process the gases, as natural gas is a valuable energy resource, or close down wells that exude pollutants beyond safety limits. Monitoring of flaring and venting should involve more stakeholders besides NEMA, including CSOs and other external agencies concerned with environmental issues and energy conservation and efficiency globally.

Whereas the Act is strong on environmental impact assessment before the oil companies are licensed (which could largely be just a paperwork job), the Act does not have sufficient provisions to ensure that the environmental effects of the oil industry will be vigilantly monitored when the oil is being produced, refined, transported and used. Provisions of institutional mechanisms to do so are simply missing.

4.3 LOCAL CONTENT

In practical terms, local content could be defined as the development and employment of competitive local skills and competencies throughout the value chain process of a particular industry. It refers to the proportion of inputs in projects that are procured from the domestic market, as opposed to inputs sourced externally. Beyond the simple procurement of goods and services, the concept includes the capital goods, engineering processes, human capital, project finance and support services necessary throughout the value chain and the life of the project. It is therefore erroneous to oversimplify the concept to mean hiring local workers by oil companies. Employing local human resources is just one of the many aspects of a local content scheme. For small holder farmers, local content will mean that oil companies and their auxiliaries support local production by buying food stuffs produced by local farmers and support value addition activities for farm produce in the country. Developing local content is the only way a resource endowed nation can develop and make the resource a blessing rather than a curse to its populace. Best practice indicates that local content can be developed through:

- Research and development (R&D) partnerships and joint development programmes between oil companies and Ugandan companies and institutions.
- Deliberate efforts of the state to participate in the industry and develop local content.
- Awarding contracts to Ugandan bidders when they prove to be competitive in terms of price, quality, delivery time and service.
- Ensuring that oil companies fulfil local content obligations beyond rhetoric and mere performance to appease local populations.
- Putting in place policies that look beyond the country's oil industry, thereby developing competencies that will contribute to national welfare even when the oil resources are depleted.
- Building on already existing competencies among the various sectors of the economy.

- Ensuring that local content is not only domestically based but is also competent on the international market.

The above considerations raise the issue of regulating the oil industry in such a way that local content is enhanced. Strong incentives, policies and relevant laws to enhance local content are missing in the current regulatory climate.



Farmers are discussing local content issues (i.e. How to benefit from oil chain). Photography By Shawn Mubiru

5.0 OIL REVENUE MANAGEMENT AND AGRICULTURE

Prudent management of oil revenues is critical in avoiding the oil curse. As there are legal provisions for management of revenues derived from Uganda's oil, small holder farmers should be concerned with three key questions:

- How will the revenues be managed to ensure that the economy and smallholder farmers really benefit from them?
- How will the oil revenues be used to develop rural areas and agriculture ?

The first question arises out of public mistrust due to rampant scandals around corruption and mismanagement of public funds. Globally, Uganda ranked 130 out of 176 in 2012 on Transparent International's list of least corrupt countries. Although this was an improvement on the previous year's 143rd position, it was still far away from, say, Mauritius (43) and Rwanda (50) that ranked among the top 50 least corrupt countries in the world. To make matters worse, the government has until now refused to make public the Production Sharing Agreements (PSAs) arguing that these are business documents that may jeopardise the prospecting companies' interests if made public. The refusal to make PSAs public is suspected by the public as a ploy under which public officers could conclude corrupt deals beyond the scrutiny of the public, including inadequate provisions for revenue sharing as required by Oil and Gas Policy (Muhwezi et al. 2009).

The second question comes about because there are several other sectors besides agriculture that would be competing for the funds from oil revenues. These include education, health, industry and defence, among others. A farmer's worry is that government has of late tended

to prioritize the above sectors while almost ignoring agriculture; this is evidenced in the low budget allocation to the agriculture sector in the national budget. Although the Budget Speech states that the total direct and indirect allocation to the agriculture sector is projected at Shs 585.3 billion in FY 2012/13, which is 5 percent of the total national budget, looking into the future, the share of agriculture sector budget in the national budget is projected to stagnate at around 3.5 percent. It is crucial that Uganda tightens law enforcement to get rid of corruption at all levels, otherwise the petrol revenues will be completely mismanaged, leading to chaos in the country.

Secondly, government needs to improve service delivery mechanisms to ensure rapid rural development . Special funds such as the Uganda Rural Development Fund or the Uganda Agricultural Fund would be appropriate . The former would deal with rural infrastructure (roads, water, hospitals, schools, electricity, etc) while the latter would cater for agricultural research and development, production and marketing. To control the impact of oil revenues on the economy, Sovereign Wealth Funds (SWFs) and other mechanisms can be used to pool and reserve the revenues for other investment purposes that will benefit the country's economy and farmers. Such sovereign funds can be crucial for avoiding the "Dutch Disease" because they remove excessive money from the economy while saving up and investing to fund crucial sectors and for future generations when the resource is depleted. Establishment of SWFs must be preceded

by passing of relevant laws, embedded say in a Uganda Sovereign Wealth and Investments Act. This is likely to be a long and protracted process that should involve research, debate and consultations with several key stakeholders. The draft Public Finance Bill (2012) has been a major step towards this direction, but there are still some important issues to address in the bill such as:

- Absence of a structured formal process to allow public debate on the bill, coupled by the inaccessibility of the bill to the general public. Farmers have had no say.
- Inadequate provisions for parliamentary oversight, giving too much power to the Minister responsible for Finance without even provisions for consultations with other relevant line ministries or bodies- but most especially, absence of parliamentary involvement in determining sector budgets and ceilings.
- Omission of a stabilization fund or provisions to manage the volatility of oil revenues and prices.
- Inconsistencies with existing legislation such as Budget Act (2001), and Public Finance and Accountability Act (2003). The bill provides for a Petroleum Fund consisting of a Petroleum Revenue Holding Account and a Petroleum Investment Reserve. It also talks of Special Funds that may be created, managed and dissolved by the minister as he or she sees fit. The Petroleum Investment Reserve is totally under the Minister's oversight, who is both the maker and implementer of its policy, without any external monitoring or checks apart from an "Investments Advisory Committee" which is also appointed or dismissed by the minister. Ugandan banks and corporations are to forget about any investments from the Petroleum Investment Reserve because the public finance bill forbids it. According to the bill, only foreign investments are allowed, and the investments must only be in financial instruments abroad, not in physical items in Uganda such as infrastructure, farms or industries. The above regulation leaves lots of room for doubt. For example, why not be like Norway, which has separate global and domestic

Expanding Boundaries Of Transparency

International instruments such as the following can assist in drives towards transparency and accountability:

- requirements for project-level reporting.
- Amendments to European Union transparency and accountability directives.
- Chain for Change Vision 20/20 strategic framework of Publish What You Pay (PWYP), a coalition of influential CSOs spanning 60 countries.
- EITI compliance disclosure rules on licensing, bidding, international payments, social payments, transactions between companies (including state-owned companies) and governments, and disaggregated data by company and revenue stream.
- US Dodd-Frank Wall Street Reform and Consumer Protection Act with
- Publication and dissemination of information on oil revenues and expenditures to millions of small holder farmers. This will empower small holder farmers to exercise agency and hold officials to account

sovereign wealth funds? Why only portfolio investments abroad and no domestic or foreign direct investments? Doesn't the bill advance short-term speculative investments instead of long term investments needed in the near and far future when the oil is gone? And what is the point of denying Ugandan banks and corporations a chance when it is so easy for corrupt Ugandan officials to collude with foreign companies or register their own companies abroad? Another problem with the finance bill as it stands is that it is almost silent on investment of reserves from other sources besides petroleum. Central bank reserves can also accumulate as a result of budget and trade surpluses as well

as revenues generated from exploitation of other natural resources, such as the wide array of minerals in the country that could be fully exploited by using revenues from the petroleum. Uganda needs sovereign wealth funds that are in line with the country's needs and aspirations, as well as the country's political, cultural and socio-economic context, including its positioning in the regional and world economy. If liquidity were the only major concern, then it would be appropriate to confine investment of reserve funds to liquid debt instruments. But Uganda has different concerns and priorities such as poverty eradication, economic and human development. For a country whose mainstay is agriculture, it would be completely absurd not to use some of the reserves to establish long term investments in the agricultural sector. Otherwise, Uganda would be no different from as a 'choice-less democracy that just bends to the whims of external powerful agencies who would be scared of the country's social development and economic diversification' (Mkandawire 2006).

5.1 Managing oil for stronger agriculture

Fortunately, there exist many ways to avert the ill effects of the oil industry described above. For instance, Norway and Botswana have been able to utilise benefits from their natural resources to develop their countries. The success of Norway boils down to high quality of public policy, legal frameworks and public accountability. There are many examples to learn from, although care must be taken not to just "copy and paste" solutions because each country's context, background and aspirations are different. Here are some plausible solutions:

- Government must offer guarantees for local content. For small holder farmers, local content will mean that oil companies and their auxiliaries support local production by buying food stuffs produced by local farmers and support value addition activities for farm produce in the country.

- Freeze the oil revenues by investing them in "Sovereign Wealth Funds". This is a common solution, but Uganda's approach is still questionable (see Section 4.3 above).
- Use oil revenues to capitalise the Uganda Development Bank and other local banks to push down interest rates for small holder farmers and small scale and medium enterprises
- Invest oil revenues into social infrastructure and boost lagging sectors such as agriculture and non-oil based manufacturing.
- The "Alaskan" solution (Rudd 1996): Use oil resources to reduce taxes instead of taking a spending spree.
- Invest heavily in local content and skills development to ensure that full employment of the entire population.
- Stop borrowing and pay off the debt: Uganda's external debt was estimated at a staggering US\$5.85 billion in June 2012, from US\$5.03 billion in June 2011.
- The Nigerian experience shows that prudent macroeconomic policy, privatization, trade liberalization, strengthening the financial sector, etc has neither been effective nor credible. Thus, the leadership in Uganda should focus on one key issue: managing the revenues from oil. Government should not be the only ones technocratically managing oil revenues, but rather citizens should be key. In particular, we propose that all Ugandans should have a constitutional right to an equal share of the oil proceeds.

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None of the above remedies is straightforward. In fact, the solutions have been a subject of intense debate and research. As seen above, some solutions may lie in very obscure models that ordinary Ugandans, politicians and other policy makers may not be able to grasp at all. This does not mean that such "black box" solutions should be ignored or just be credulously accepted without looking under the hood or exposing them to public debate. It is relatively simple to scrutinize each alternative solution, find out why it worked where it worked, compare the

circumstances to the Ugandan context, and hence decide what is best for the country while making the best use of common sense and the country's great intellectual resources.

5.2 Avoiding the Natural Resource Curse

Since there will be more money to spend on the non-tradable items, people will shift from agriculture and manufacturing to non-tradable sectors, especially services, including health, education, retail and construction. To put it simply, people will start opening up more hair salons, bars, garages, and shops for imported products, rather than taking the pains to till the land and wait for several months for unpredictable crops that may easily be destroyed by diseases, which also need weeding, harvesting labour, transport, and marketing.

At the same time, foreign exchange earned from the oil revenues would make the Uganda shilling stronger, thereby making imported items cheaper. For example, rice from India and Pakistan could become much cheaper than rice from Ugandan farms. The stronger currency would hurt agriculture and other lagging non-oil sectors further because tradable exports such as coffee, cotton, horticulture, fish, fruits, cereals, and finished products become too expensive for foreign importers. For example, if an exporter changes 10,000 US dollars today, he/she would buy goods worth about UGX 26 million. But if the Uganda shilling becomes 20 times stronger because of petroleum, the 10,000 US dollars become equal to only UGX 1.3 million. A foreign importer would then require 200,000 US dollars to buy the same quantity of Uganda's tradable exports as he/she would buy with only 10,000 US dollars before the appreciation of the Uganda shilling due to petroleum. So Uganda's non-oil tradable exports (agricultural and manufactured exports) lose their market. As seen above, Ugandan small holder subsistence farmers would lose markets both at

home and abroad. They would be earning less and less from their farms until they are forced to abandon them and sell off their land due to poverty. Meanwhile, the price of non-tradable items will hike due to increased demand and lifestyle changes. Strikes and shutdowns will become the order of the day in non-oil based industries when companies are no longer be able to pay sufficient salaries. Local non-oil industries such as those making sugar, soap, beverages, construction materials, etc, could all close down. Worse still, the Uganda that would be a 'food basket for the entire region' would shamefully become a net importer of food. Unemployment would reach unprecedented rates with all agriculture halted and most manufacturing industries closed, given that oil and the remaining sectors will be employing only a handful of people compared to the total population. The country's export potential would be completely and permanently ruined.

The above scenario is not just imaginary. It has actually happened to many countries. It happened to Netherlands in the 1960s with exploitation of oil from the North Sea, hence the name 'Dutch Disease'. It also happened in Britain in the 1970s, sending the country into a very great recession. African oil-producing countries such as Nigeria and Niger have also greatly suffered from the disease. It must be added that this scenario is not caused by oil or natural resources only. The problems in the economy can be caused by other influx of foreign exchange such as donor funds and foreign direct investments. For example, it is speculated that Ethiopia's current grave social-economic problems are due to receiving too much foreign aid. Even Uganda is suspected to be already suffering from economic damage due to excessive dependence on foreign aid flows (Addison 2008).

It is also envisaged that a sudden influx of revenues from oil will affect Uganda's agriculture negatively in two ways. First of all, labour will likely shift away from

agriculture to the oil industry and its offshoots. Although this may worsen the already lagging agricultural sector, it may not be a drastic effect because agriculture employs far more people than those that can be absorbed by the relatively less labour intensive oil industry. There is a need to emphasize seriously, that the petrol revenues can damage the economy. Increased revenues generate more money to spend. Although there might be a higher domestic demand for more food products that might boost the agricultural sector, most of the new money would be spent on imported non-productive items like expensive cars, perfumes, luxurious clothing, entertainment, travels abroad, sophisticated mobile phones, lush haircuts, and the like. Such products and services are 'non-tradable' in Uganda's case because they are not among the country's exports. A research study by Wiebelt et al (2011) shows that Uganda's urban sectors and populations will generally be better able to capture rents generated by oil revenues, leading to a greater inequality divide between the urban rich and the rural poor (Wiebelt et al. 2011). But, fortunately, the same study also shows that investing in agriculture and rural infrastructure could avert the problems caused by such a divide. Otherwise the foundations of a "resource curse" would have already been laid.

Saving for future generations- The case of Norway

Oil and gas are huge in Norway, contributing 26% of the GDP; 34% of the government's revenue, 23% of total investment and half of the country's exports. Norway is now the world's sixth largest oil exporter and the second largest gas seller. However, Gjedrem expects production, which peaked in the middle of the last decade at more than 250 million cubic meters per year, to decline to some 150 million cubic meters by 2030. In 1990, the government established the Petroleum Fund to manage and invest national revenue from the industry. Norges Bank Investment Management, or NBIM, is the manager of this fund, which, in 2006, was renamed the Government Pension Fund Global. What Norway has been doing is to channel direct revenue as well as tax collections from oil and gas companies into the fund. The money is then invested abroad and not spent internally, so as not to over-heat the domestic economy. There is also a strict fiscal rule, where the government is not to spend more than the returns generated from the fund. In the short term, this will avoid depleting the fund and over the long-term, it ensures that future generations of Norwegians will be able to benefit from the nation's wealth. Keeping in mind that natural resources are finite, the country is also seeking to transform its wealth composition in favor of financial services.

5.3 AVOIDING THE DUTCH DISEASE

To avoid the “Dutch disease”, Uganda must adopt practices that guard macro-economic stability—for instance, by maintaining low and stable inflation rates. Government should avoid excessive appreciation of the Ugandan shilling by ensuring a sustainable value for the currency (consistent with the long-run success of Uganda non-resource exports) while setting the central bank’s monetary policy decisions and interventions. In addition, government should capitalize the Uganda Development Bank (UDB) to provide financing for the ambitious development programmes. The bank’s capital would be provided from a share of oil and gas revenues. The bank (like other banks) would leverage that capital into an expanded portfolio of loans and other financial placements (including equity in some cases) in development programmes that advance the public policy goal of diversifying Uganda’s exports and stimulating industries that are both desirable and innovative. In other words, UDB, like existing private banks, would have the power to create credit and allocate it to selected projects and enterprises in the real economy. This will be a critical and strategic pathway for small holder farmers to access credit at affordable price (interest rates). Furthermore, government should take strategic efforts to enhance value-added production and investment in key tradable sectors of the economy such as green energy manufacturing using solar, wind, and other renewable energy systems; create funds to enhance the production of value-added forestry, wood, and paper products; implement energy conservation and other sustainable practices; support sustainable and organic agricultural production; and provide subsidies to small scale farmers.

6.0 WHAT NEEDS TO BE DONE

Oil will be a deal for small holder farmers if policy makers do the following:

Government needs to fulfil the Maputo Declaration of allocating 10% of the national budget to agriculture with a broader objective of achieving and sustaining 6% growth target.

Leverage the Eastern Africa Community to set a common external tariff regime for sensitive agricultural commodities like maize, rice and other oil seeds to protect local farmers from cheaper food imports for five years, in order to allow Ugandan farmers to fill a competitiveness gap. This will be a strategic deterrent against expected currency appreciation driven by substantial amount of oil revenues.

Establish long-term subsidized agricultural projects and rural infrastructure to promote small holder farmer enterprises to perform effectively and become competitive.

Guarantee priority to Ugandan farmers’ products by writing local content clauses into oil and gas sector laws. Importation of foodstuffs for oil workers should only be limited to products that are not produced in Uganda

Make use of cheap bitumen from Uganda’s petroleum to construct roads in all parts of the country. Take consideration of the smallholder farmers’ aspirations and needs as a priority because they are the majority of the population.

Eliminate corruption and mismanagement of public funds to enhance public trust in government. The first steps should include joining the Extractive Industries Transparency Initiative (EITI) and making PSAs public.

Control revenues from oil, foreign aid, foreign direct investments and other sources to avert the resource curse. Solve the puzzle of where donors will go if oil booms.

Do not leave all long term reserve investments in the hands of foreigners, and do not have long term reserves invested in only foreign liquid debt instruments.

Make thorough use of the country's impressive intellectual prowess to do thorough policy research and plan the economy in such a way that the welfare of small holder farmers is improved, not worsened.

Review the pertinent laws and policies to bridge gaps and address weaknesses

Strengthen measuring and monitoring of environmental regulations when industries are in actual operation. Mandatory pre-licensing Environmental Impact Assessments (EIAs) are not enough and they are frequently just paperwork. Build capability of specialised environment monitoring agencies.

Diversify the economy away from petroleum, which is finite and dependent on world prices.

Plan to phase out extraction and use of fossil fuels like petroleum. This is going to be the new global trend (See "Swedish" solution in Section 5.4). The trend implies that world oil prices are doomed to fall (with more new countries exporting oil while all the major users are attempting to reduce consumption). Investigate why and how the fossil fuels are being phased out.

Farmers do the following

Organise and amplify your voice. Endeavour to know your rights thoroughly to avoid just being bulldozed by new development projects. Learn how to speak out to influence key decision makers (mobilization, advocacy, coalition, networking, lobbying, etc).

Know the size and value of your land, house and farm property. It will help you in planning and negotiations.

Press your leaders for better roads to your farm when oil refining starts because bitumen will be available more cheaply.

Support Ugandan's new petrochemical industry when it starts, buy Uganda made products. Make use of the urea fertilizers (with care) to improve farm yields and produce organic food products which will be on a high demand.

Demand that importation of cheap foodstuffs from Pakistan and other countries

is regulated to protect your enterprises'

Diversification to beef and poultry products will yield windfalls as more Ugandans acquire middleclass status

Invest in value addition to farm produce. There will be more demand for processed foods of various species and taste.

Don't expect the government to do everything for you. Avoid depending on hand-outs for inputs, credit, etc. Don't spend all your hard earned income only on leisure and perishable luxurious goods. Make it harder for anyone to displace you by investing in simple permanent structures such as nice looking paved roads to your houses. (Your neighbours will not contribute! It is just up to you as an individual).

Do not just sell off your land so desperately. As they say, land is not like 'bananas' that you replace by just buying from the local market.

Times may be tough, but don't think of picking spears, machetes, arrows, guns, or grenades! Try the legal, democratic and advocacy processes and the walk of faith as far as possible because violence can plunge the country into the "resource curse" which may claim thousands of lives and destruction of property without anyone gaining.

Oil Companies, Investors and Developers do the following:

Make reasonable profits and do not dodge taxes or underpay Ugandans working in your enterprises. Do not siphon all profits out of the country.

Help Uganda develop appropriate "local content" that will promote economic diversity. Develop human resource in all sectors. Give jobs to Ugandans. Procure from Ugandan firms and help them grow.

Protect the environment out of obligation and conscience. Do not secretly dump waste and do not flare or vent off gases beyond safe limits. Take all necessary protections to avoid leakages by accident or otherwise.

Do not bribe your way through; it hurts the whole economy

and will eventually ruin your business.

Invest and develop enterprises in line with the country's needs, aspirations and priorities.

Uganda's President Museveni Confident on Oil

Says Museveni, "There is a lot of nonsense that the oil will be a curse. No way. The oil of Uganda cannot be a curse. Oil becomes a curse when you have got useless leaders and I can say that we don't approach that description even by a thousandth of a mile (ADB 2009)."



Fig.8 President Museveni in Moscow to discuss oil business

Avoid projects that will displace populations. Try less inhabited places and arid places that may not be suitable for ordinary uses. In case of unavoidable displacement, compensate the affected persons equitably. Do not cheat them due to their ignorance.

Plan to phase out fossil fuels (which must happen soon or later). Invest in alternative fuel industries and renewable energy sources. Fast track economies that are doing this.

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