The Norwegian Model of Oil Extraction and Revenues Management in Uganda

Andrzej Polus and Wojciech J. Tycholiz

Abstract: According to the latest figures, Uganda has 6.5 billion barrels of oil deposits, which makes it the third-largest oil holder in sub-Saharan Africa. Currently the country is preparing its legal and institutional framework for proper management of the oil revenues. However, developing an effective oil sector in any of the SSA states has so far proved to be a futile task. To ensure that Uganda is not going to repeat the mistakes of Nigeria, the country's leaders have requested Norway's assistance in preparing Uganda's oil sector for the upcoming production phase. The major objective of this article is to determine whether the Norwegian model of oil extraction and revenues management is transplantable to the Ugandan political, economic, and social conditions.

Résumé: Selon les derniers chiffres, l'Ouganda dispose de 6,5 milliards de barils de gisements de pétrole, ce qui en fait le troisième plus grand détenteur de pétrole en Afrique subsaharienne. Présentement, le pays prépare son cadre juridique et institutionnel pour une meilleure gestion des recettes pétrolières. Cependant, le développement d'un secteur pétrolier efficace dans l'un ou plusieurs des États de l'Afrique subsaharienne s'est révélé jusqu'ici une tâche futile. Pour s'assurer que l'Ouganda ne répète pas les erreurs nigériennes, les dirigeants du pays ont demandé l'aide de la Norvège pour préparer le secteur pétrolier de l'Ouganda pour la

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prochaine phase de production. L'objectif principal de cet article est de déterminer si le modèle norvégien d'extraction pétrolière et de gestion des revenus peut être appliqué avec les conditions politiques, économiques et sociales de l'Ouganda.

Keywords: Uganda; Norway; resource curse; oil sector management; patronage

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> 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.
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> —President Y. Museveni during the announcement of the oil discovery in Lake Alberta, 2006.

Norway is often presented as a model state that has turned oil deposits into economic success and has remained one of the world's most egalitarian societies. Many sub-Saharan states, by contrast, are often portrayed as victims of the so-called resource curse. A few of them, including Uganda, will soon start oil production and are now in the process of structuring their extractive sectors, hoping to replicate the Norwegian success story.

During the last decade Uganda was among the world's fastest growing economies and managed to substantially reduce poverty levels (Whitworth & Williamson 2010). Nonetheless, about 20 percent of the population still lives below the poverty line and GDP per capita is only U.S.$650 (World Bank 2015a). The recent discovery of oil in commercial quantities could potentially help to accelerate the country's transformation. However, developing an effective oil sector in any of the sub-Saharan countries has proved so far to be an impossible task.

Nigeria, the twelfth-largest global oil producer, is often portrayed as a poster child for the so-called resource curse phenomenon and can serve as an example of how *not* to organize the oil sector and manage revenues. In the 1950s, after oil production began, two parallel processes shaped the country's future. First, on the federal level, with every year as a petro-state, the Nigerian government became more and more addicted to oil revenues (which account today for nearly 90 percent of export and 75 percent of the country's consolidated revenues). Second, on the local level, indigenous communities experienced an ongoing disintegration of their livelihoods (Frynas 2000; Adunbi 2011). The combined effect of these processes led to endemic corruption, institutional decay, violent conflicts, and environmental devastation. The Nigerian government tried to cushion the negative effects of oil price volatility by establishing the Excess Crude Account in 2004, and to save oil revenues for future generations by launching the Sovereign Wealth Fund (SWF) in 2011. Although these arrangements were perceived as a step in the right direction, they have not stopped the government from raiding the safeguarded funds.

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Similarly, in Equatorial Guinea a lack of checks and balances and a transparent framework for oil revenue management has led to a monoculture of accumulation, and oil production has merely "provided more avenues for patronage to members of the ruling elite" (Wood 2004). Statistically, the economic growth spurred by oil elevated the gross national income (GNI) per capita from U.S.$400 in 1996 to U.S.$17,430 in 2014 (World Bank 2015b), making Equatorial Guinea the wealthiest country on the continent. However, as in many other cases in sub-Saharan Africa, a spectacular figure on paper means little in the real world. In fact, instead of transforming the country's economy toward sustainability, the oil resources have fostered economic underdevelopment and cemented the regime of this "criminal state" (Frynas 2004; Wood 2004).

In order to ensure that Uganda is not going to repeat the mistakes of Nigeria or Equatorial Guinea, the country's leaders have turned to Norway and requested its assistance in preparing Uganda's legal and institutional framework for the upcoming oil production phase.

The major research question the authors attempt to answer in this article is to what extent the Norwegian oil sector and revenue management model is transplantable to Uganda. This question is part of the general debate on the viability of externally imposed development paradigms in sub-Saharan Africa (Mbaku 2004:33). The article is also intended as a contribution to the theoretical debate on the means of preventing the natural resource "curse." It is based on field studies conducted in Uganda and Norway that included in-depth interviews, direct observation, and critical analysis of documents and literature, as well as discourse and comparative analysis.[1]

Resource Curse, Resource Extraction, and Revenue Management: Theoretical Framework

Resource Curse Thesis

Over the last few decades, many empirical studies have shown that, contrary to conventional wisdom, mineral and hydrocarbon-related revenues do not necessarily spur economic growth. This "oddity" and "conceptual puzzle"—that is, the finding of a correlation between natural resource abundance and economic decline after a natural resource discovery, known also as the "resource curse"—was confirmed by a large number of empirical studies and has been documented the most frequently in sub-Saharan Africa (see Sachs & Warner 1995, 1997, 1999; Neary & Van Wijnbergen 1986; Mabro & Monroe 1974).

The term "resource curse" was first introduced into the formal economics literature in 1993 by Richard Auty, who stated that "a favorable natural resource endowment may be less beneficial to countries at low- and mid-income levels of development than conventional wisdom might suppose" (1993:1). To support his claim, he showed in a series of subsequent studies

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that "between 1960 and 1990 the per capita incomes of resource-poor countries grew two to three times faster than those of resource-abundant countries" (2001a:3). At present, even though the resource curse phenomenon is not accepted as a law (there are studies proving that an influx of large resource revenues does improve economic performance; see Kaznacheev 2013), there is still a general notion that it is "a recurrent tendency" (Auty 1994a:12).

Initially, the perplexing connection observed between natural resource abundance and lower economic growth was considered to be largely a parallel rather than a causal phenomenon. For example, Gelb et al. (1988) found that resource-rich economies experience a larger deterioration in the effectiveness of domestic capital formation than resource-poor countries. Mikessell (1997) suggested that the resource curse is largely explained by oil price volatility, while Gylfason et al. (1999) argued that the level of domestic investments is inversely related to dependence on primary product exports. Corden and Neary (1982) enriched the resource curse debate by introducing the concept of the "Dutch disease," claiming that appreciation of the real exchange rate—caused by inflation arising from spending natural-resource revenues—leads to contraction in the non-mineral tradable sectors (e.g., manufacturing or agriculture).[2] Several studies also showed that rent-seeking governments have poor records in poverty alleviation (Karly 1997) and that resource abundance contributes to greater income inequality (Auty 1994b; Sarraf & Jiwanji 2001).

The next phase of the resource curse debate included a large body of empirical studies whose results did not provide unequivocal support for the purely economic aspects of the resource curse hypothesis, thus implying that other factors must also be at play (see Moran 1983; Behrman 1987; Cuddington 1992; Lutz 1994). Toward this end, Ross (2001) determined that oil resources in low- and middle-income countries tend to make authoritarian regimes more durable and lead to an increase in corruption and violent conflicts. Auty concluded that natural resource abundance "significantly weakens nascent democratic institutions, repressing political parties so that power is weakly contested, public finances are opaque and corruption both by the elite and bureaucracy is rampant" (2001b:10). Additionally, as pointed out by Collier (2005:564), when control over the resource is perceived as a crucial element in obtaining political power, mineral-fueled conflicts are more likely to emerge. In a similar vein, Smith (2007) noted that, besides economic factors, the quality of institutions and stability of the political regime at the moment of oil discovery are the major determinants of how the natural resource influences a country's development. In other words, if a state's institutions are not strong enough and policies governing the resource sectors are not adequately structured, there is a higher probability that the country will become a victim of the natural resource curse.

By contrast, however, Haber and Menaldo (2011), in a survey of fifty-two countries, found that the effects of natural resource wealth were politically neutral for twenty-six of them. Kopiński et al. (2013) claimed that the oil

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curse in some of the sub-Saharan petro-states is not inevitable, and should rather be perceived as "a treatable disease." Finally, Torres et al. (2012) pointed out that when good institutions are present and fiscal responsibility is ensured, oil concentration actually benefits growth.

The findings supporting the notion of a resource curse, are therefore ambiguous, at best. Nevertheless, one of the most commonly mentioned "remedies" for avoiding at least the *symptoms* of the resource curse is the implementation of the Norwegian model of oil sector and oil-related revenue management. This study, therefore, tries to determine to what extent (if at all) the Norwegian model can be effectively implemented in Uganda based on features of the Ugandan economic and sociopolitical landscape.

Oil Extraction and Revenue Management Models

In general, governance of the natural resource sector follows two (basic) models. Under the first one, the planning, regulatory, and commercial functions are conducted by the same institution. In other words, a dedicated government-sponsored entity is at the same time a player and a referee: it regulates the extractive sector, awards licenses and extracts, and sells minerals or hydrocarbons on the government's behalf. Under the second model, establishment of the political objectives of oil production and the regulatory and commercial functions are separated and delegated to different administrative institutions. In the case of Norway, these functions form a triad: a dedicated ministry is responsible for outlining the sector's policy and national objectives, a regulatory body is empowered to create the industry's regulatory framework and to collect mineral revenues, while a state-owned oil company commercially operates in the sector.

When it comes to oil revenue management specifically, it is possible to further distinguish two extreme positions as well as different "combinations" of them (see Wakeman-Linn 2003). The first extreme represents a conservative stance, according to which large oil windfalls lead to an appreciation of the local currency and competitiveness of the non-oil sector, thus hindering development. To prevent such dynamics, proponents of the conservative approach suggest balanced budgeting, reduction of foreign debt ratios, and accumulation of savings for future generations (Gylfason et al. 1999; Eifert et al. 2002). From this perspective, the Norwegian "bird-in-hand" approach to oil revenue management constitutes an essential tool for achieving the above-outlined goals. The "bird-in-hand" policy is based on the assumption that only the interest rates from accumulated oil revenues are spent, while the capital itself is preserved (and further accumulated as the oil revenue inflows continue). Such an approach not only minimizes the negative effects of the Dutch disease, oil price volatility, and a boom–bust spending cycle, but is also sustainable in the longer term. On the other hand, due to low public spending in the early years of oil production, the "bird-in-hand" approach is associated with relatively high opportunity cost, as current capital incentives that otherwise might have spurred

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development are forgone at the expense of future spending (Segura 2013). This is particularly true for developing countries struggling with insufficiencies in infrastructure and public services. And Uganda is no exception. Taking into account the huge needs of the Ugandan society, it would be extremely difficult for any politician to explain tighter spending.

Contrary to the "bird-in-hand" rule, the "balanced budget" or "big push" policy is based on the argument that all annual oil income should be spent, as it supports growth led by the private sector and an increase in productivity. Investments in physical, social, and human infrastructure sponsored by oil and copper revenues have been identified as an important component for transitional economies such as Indonesia and Chile (Collier 2006). This approach, however, favors current over future generations in terms of oil wealth consumption and is susceptible to boom–bust cycles on the global market. Sustaining a fiscal balance with this approach, although not impossible, is relatively difficult over a longer period and requires adequate budget discipline and responsibility (both of which developing countries with oil deposits in sub-Saharan Africa usually lack).

Therefore, academics analyzing the resource curse phenomenon have praised, on many occasions, the Norwegian approach—assigning policy regulatory and commercial functions to different entities and implementing the "bird-in-hand" fiscal policy—as "the canonical model of good bureaucratic design for a hydrocarbon sector" (Thurber et al. 2010). Nevertheless, it is worth mentioning that the Norwegian model was not introduced in the form we know it today right at the moment of oil discovery. Since that time, it has evolved considerably and has been adjusted to the specific Norwegian circumstances. In other words, from a theoretical point of view, a country that is planning to adopt the Norwegian model needs, among other prerequisites, similar institutional capacity and legal frameworks.

Some developing countries (e.g., Algeria, Brazil, Mexico, and Nigeria), inspired by the Norwegian oil sector's performance, have tried to apply the Norwegian triad, though with mixed results. Others, such as Angola and Malaysia, have concentrated most of their policy, regulatory, and commercial competences in one institutional body.

The Norwegian Triad

After discovering vast oil deposits in the North Sea in the 1960s, Norway decided to assign oil sector functions to three distinct institutions. The first of these, the Ministry of Petroleum and Energy, is responsible for determining oil sector policy objectives, supervising the license-awarding process, and generally overseeing the oil sector. The Norwegian Petroleum Directorate, the second autonomous institution, regulates the sector, gathers data on all hydrocarbon activities in Norway, and serves as the technical advisor to the Ministry of Petroleum. Finally, Statoil, a national oil company, carries out oil operations on a commercial basis both in Norway and abroad (Al-Kasim 2006).

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Many analyses of African mineral and hydrocarbon economies emphasize the importance of a legal framework that will allow the government to collect appropriate revenues (see Kopiński et al. 2013). We argue that the development of a national oil corporation as an "industry insider" played a central role in the Norwegian model's success, since it substantially reduced any tax avoidance strategies employed by oil corporations operating in the country.

During the first licensing round in 1965, foreign companies assumed control of 90 percent of North Sea oil fields. It was not until 1981 that Statoil became the operator of an oil field (Statoil 2015). However, due to the policy of developing the Norwegian oil industry, as well as taking over licenses from foreign companies, by 2001 foreign companies controlled only about 20 percent of the oil resources in the country (Bayulgen 2010).

Additionally, the national oil corporation, operating on a commercial basis, enforces the continuous improvement of technical knowledge related to resource extraction, which in turn reduces the possibility of hiding income (or inflating the costs of operations) by other operators of the oil fields. On the negative side, however, the business effectiveness of a state-owned oil corporation might be lower than that of privately owned business entities.

Oil Revenue Management in Norway: Saving for the Future

Even though the discussion regarding the role of the petroleum industry in Norway began as early as in 1974 (three years after the launch of oil production), the first material result of these debates emerged in 1990 in the form of the Government Petroleum Fund (commonly referred to as the Oil Fund, or the Fund). The idea behind the establishment of the Fund was multifold. First, the Fund was designed to provide the Norwegian government with means to address any severe contraction of the mainland economy and shield it from Dutch disease. Second, in the event of a sharp oil price drop, the Fund was to serve as a smoothing and stabilizing mechanism in a volatile global commodity price environment. Third, since oil and gas deposits can be expected to become depleted over time, income returns on the Fund's assets were to gradually replace direct resource rent in the state's budget. Finally, because Norwegian society is aging (unlike Uganda, which has the world's youngest population), the Fund's revenues were intended to provide support for the national pension system in the upcoming decades. Toward this end, to emphasize the Fund's role in the Norwegian public pension system, it was renamed the Government Pension Fund (GPF) in 2006 (Norwegian Ministry of Finance 2013–14).

As of today, the GPF is divided into two subfunds: the Government Pension Fund Global (GPFG) and the Government Pension Fund Norway (GPFN). The GPFG is managed by Norges Bank Investment Management (NBIM), a part of the Norwegian Central Bank, while the GPFN is managed by the asset management group Folketrygdfondet. The investment mandate for both subfunds is set by the Ministry of Finance. The GPFN, the smaller

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of the two (as of 2014 its assets were valued at U.S.$886.5 billion), is based on the National Insurance Scheme Fund (1967), which was intended as the funding vehicle for reserves stemming from a surplus in the social security system.

The GPFG's structure and ethical and investment guidelines have evolved over time. Initially all revenues were treated similarly to the Norwegian Central Bank's foreign exchange reserves and were invested in government bonds only. Over the years increasingly larger shares of GPF revenues have been invested in riskier instruments such as corporate and securitized bonds, small-cap and large-cap equities (including those from emerging markets), and real estate. In order to avoid overheating the domestic economy and to shield it from the negative effects of oil price volatility, all funds from the GPFG have been invested on international financial markets. As of March 30, 2015, the market value of the GPFG was U.S.$890 billion, making it the largest sovereign wealth fund globally (Norges Bank Investment 2015).

The GPFG has a clearly defined and transparent investment strategy and corporate governance rules, the most important of which makes the investment horizon very long term (virtually indefinite). As a result, riskier instruments such as equities or real estate can account for a larger part of the investment portfolio (the actual benchmark includes 61.3 percent of equities and 2.2 percent of real estate). Risk-adjusted returns are further enhanced through proper asset diversification strategies—equity holdings in a single company cannot exceed 10 percent of its capital. Due to relatively strict ethical and governance standards, however, some of the companies are excluded from the GPFG portfolio. This includes companies producing specific types of weapons (e.g., nuclear weapons) or tobacco, and companies demonstrating systematic violations of fundamental ethical norms (e.g., human and labor rights, corruption, environmental degradation).

On the income side, contributions to the GPFG include the net cash flow from petroleum activities, the net results of financial transactions associated with petroleum activities, and the return of its capital. The first component of the GPFG income accounts for the vast majority of total contributions and consists of total tax revenues and royalties from petroleum activities, tax on mono-nitrogen oxides and carbon dioxide emissions, operating income derived from the state's direct financial interest in petroleum activities, revenues from net surplus agreements associated with certain production licenses, proceeds from the sale of stakes representing direct financial interest in petroleum activities, and dividends from Statoil (Norwegian Ministry of Finance 2013–14).

The Norwegian model of oil revenue management also includes a fiscal rule that determines how much oil money can actually be "consumed" every year. According to this rule, annual funds withdrawn from the GPFG should not exceed the expected real return on the GPFG investments, which is estimated at 4 percent. In other words, the government should not finance its non-oil structural deficit with the GPFG capital but rather with the returns generated by the GPFG's investments (Aamodt 2012).This rule

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is hardly adaptable to the sub-Saharan circumstances, however, since oil-related revenues are usually interconnected with high public expectations. From a common sense point of view, it would be very difficult for any politician to manage social expectations effectively with the basic assumption that oil-related revenues will not be utilized for the current needs. Even in Norway, locking up the oil wealth in a fund that the citizens could not use resulted in a decline in political trust (Listhaug 2005).

Oil in Uganda

During the last five decades, oil corporations have drilled hundreds of oil wells across sub-Saharan Africa, but only a handful in East Africa. This situation started to change in 2006 when Tullow Oil found commercial quantities of oil in Uganda. Subsequently, hydrocarbon deposits were found in Kenya, Mozambique, and Tanzania. In total, according to the latest available estimates, East Africa likely holds more than 20 billion barrels of oil (Kopiński et al. 2012). Uganda itself—according to a recent reappraisal—has 6.5 billion barrels of oil (Ministry of Energy and Mineral Development 2015). This number makes the country the third-largest oil-holder in sub-Saharan Africa (after Nigeria and Angola, which have 37.2 and 9.0 billion barrels, respectively).

Even though commercial quantities of oil in Uganda were discovered in 2006, the country's oil history can be traced back to the 1920s when Edward J. Wayland (the director of Uganda's Geological Survey) first reported the existence of hydrocarbons in Albertine Graben, but subsequent well drills did not confirm any large oil deposits (Wayland 1926). After World War II, London did not actively support the search for oil in Uganda, since the country was considered more as a food basket than a hydrocarbon hot spot. Postindependence efforts, initially modest, included several geological and geophysical surveys in promising exploration areas as well as the enactment of the first oil-related legal framework to govern the sector.

In the late 1900s and early 2000s major oil companies did not consider East Africa as a viable area for their oil activities, and the region was therefore targeted by wildcat companies instead (including Petrofina, Dominion Petroleum, Neptune Petroleum, Energy Africa, Hardman Resources, and Tullow Oil, to name the most active players). An increased number of drilled oil wells resulted in the first oil strike in commercial quantities in 2006 in the Kayso-Tonya exploration area. During the 2008–14 period, oil companies drilled 116 oil wells and recorded twenty-one discoveries, totaling 6.5 billion barrels of oil and 499 cubic feet of gas. In 2013 Uganda's annual oil consumption was eight million barrels.

With the new hydrocarbon discoveries in Uganda, the oil sector has been consolidated and reorganized. Instead of the dozens of smaller companies that formerly operated in the country, there are now three corporations leading exploration and development activities, namely Tullow

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Oil, China National Offshore Oil Corporation (CNOOC), and Total. Although the Directorate of Petroleum has awarded numerous exploration licenses, it initially awarded only one production license—to CNOOC in 2013. After more than three years of negotiations similar licenses were awarded to Tullow Oil and Total in August 2016. All three foreign investors were granted a period until the end of 2017 to make the final investment decision. The Ugandan government expects the partners to invest over U.S.$8 billion and anticipates production levels of around 200,000 to 220,000 barrels per day (Ministry of Energy and Minerals 2016).

As the oil corporations prepare the necessary infrastructure for extracting oil in Uganda, the Ugandan government is structuring its legal and institutional frameworks (e.g., Oil and Gas Revenue Management Policy, the Petroleum Exploration, Development and Production Act 2013) to accommodate oil revenues. And even though Uganda, as Henstridge and Page (2012) argue, will not become another Kuwait (since the total oil revenues over the next thirty years will not exceed 5 percent of the country's GDP), the way these revenues are managed will likely determine whether Uganda's oil story will be a success or a failure.

The Norwegian Model in Uganda

Introduction of the Norwegian model requires technical knowledge and skills related to the extractive industry, tax collection, capital investments, and auditing. Back in the 1980s, Uganda trained a world-class team of geologists who supported the state during the oil exploration phase (interview with Fred Muhumuza, KPMG senior manager, Kampala, April 30, 2014). However, as the country moves from exploration to the production phase, different skills are required (e.g., oil revenue stream management, knowledge of the down and mid-stream industry, applicable taxes, and other fees collected from produced oil), and unfortunately, Uganda has not yet educated its own experts in these areas. In this regard, the assistance that the country can obtain from Norway seems highly desirable, especially since both countries have a consistent track record of cooperation, and promotion of the Norwegian model in Uganda is among Oslo's top foreign policy goals in sub-Saharan Africa.

Diplomatic Relations between Norway and Uganda

Norway and Uganda established diplomatic relations in 1964. Shortly afterward, Uganda became one of the nine priority developing countries for Norwegian development cooperation (Stokke 1989). Diplomatic relations and bilateral aid were severed in the mid-1970s under Idi Amin's rule (Royal Norwegian Embassy in Kampala 2015), but diplomatic relations were reestablished a decade later, and in 1996 the Norwegian embassy was opened in Kampala. At that time, Uganda was presented as a model African country with respect to its economic and political transformations.

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A major dissonance in Ugandan–Norwegian relations developed in 2005 when Norway cut its aid to Uganda by U.S.$4 million (10 percent of the total annual Norwegian assistance to Uganda). This decision was spurred by an amendment to the Ugandan Constitution that lifted the presidential term limit as well as allegations of corruption in the president's office (Press Agency Saudi Arabia 2005). In 2014, when Uganda's Anti-Homosexuality Act was adopted, Norway again froze part of its aid to Uganda (Norwegian Agency for Development Cooperation 2015). Nevertheless, in terms of development and humanitarian aid, Uganda has remained one of the most important countries for Norway in sub-Saharan Africa, receiving, for example, 34 billion NOK (approximately U.S.$5.7 billion) from 2000 to 2010 (Office of the Vice Chancellor at Makerere University 2015).

In 2005 the Norwegian government created the Oil for Development Program under the supervision of the Norwegian Agency for Development Cooperation (NORAD). The program is aimed at supporting oil-related revenues management, as well as environmental protection and safety management in oil extraction areas. Within the framework of the Oil for Development Program, Norway and Uganda started to implement a three-year program titled "Strengthening the State Petroleum Administration of the Upstream Sector in Uganda." After its successful completion, a new five-year program was launched, which was aimed at state capacity-building and legal and institutional framework adjustment before oil production. However, due to the corruption scandals in the prime minister's office, the Oil for Development Program in Uganda was suspended from December 2012 to August 2013. Nevertheless, Norwegian support played a crucial role in implementing the new Petroleum Upstream Bill and Oil Revenue Management Policy in Uganda (Norwegian Agency for Development Cooperation 2015).

Systematic Features of the Ugandan Political and Institutional Landscape

As the Norwegian example shows, a well-managed oil sector and properly structured revenue management scheme can substantially contribute to a country's development and provide its citizens with long-term prosperity. However, implementing the Norwegian model requires a number of prerequisites, including well-established institutions, competent civil servants, and an adequate level of institutional capacity. Moreover, according to Alexander Cappelen, a professor at the Norwegian School of Economics, "for this kind of system to work, you need to have an enormous level of trust. Trust that the money isn't going to be mismanaged—that it's not going to be spent in a way you don't like" (Treanor 2012). Otherwise, the resource boom can easily become a resource curse. Trust (which refers here to the social capital) was built in Norway in an egalitarian society under a multiparty democracy, whereas Uganda is a postconflict state where freedom of expression is often limited.

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A number of observers, therefore, have expressed a strong conviction that the Norwegian model of oil revenues management cannot be directly transplanted to Uganda. Doubts about benefits of the Norwegian model for Uganda were raised, for example, by Duncan Clarke, the CEO of the advisory firm Global Pacific & Partners, who described it as

> one that involves a lot of capital, a lot of bureaucracy and excessive regulations. . . . Our Norwegian friends went through a lot to benefit from oil. They paid for almost everything, the operation costs were very high, they used state-owned companies, companies owned shares from other companies and they ended up being a country of huge capital seekers. (Oil in Uganda 2015)

Similar doubts were expressed by Ben Shepherd (2013) of Chatham House, who stated,

> In Norway, responsibility for management of the oil sector is split between a national oil company, a petroleum authority and the government. It is the model that Uganda seems set to follow. But while the checks and balances built into such a system are positive, the complexity of setting up such an institutionally heavy system risks confusion over roles, and expense.

It should also be noted that Norway needed almost three decades to establish its savings funds and a decade to mature its own upstream company to a point where it would be capable of operating an oil field.

The essence of the GPFG in Norway is to make the oil funds inaccessible to politicians' short-term needs. Meanwhile, Ugandan experience clearly indicates that President Museveni is able to use the oil money in any way he wants, and there is no institution in the Ugandan political system that can stop him. For example, in 2011 the president asked Emanuel Mutebile, the governor of the Bank of Uganda, to release U.S.$741 million for the purchase of fighter jets from Russia (Bariyo 2011). Despite the fact that any release of the public money should be approved by Parliament, Mutebile "released the funds on the verbal assurance that the money would be refunded when oil corporations begin paying tax" (Miirima 2013). In other words, despite the theoretical independence of the Bank of Uganda, President Museveni is not only able to withdraw funds from the national bank without Parliament's approval, but he also has the ability to collateralize future oil-related revenues.

Another feature of Ugandan politics that differs considerably from Norway's is the collective memory of recent history and presidential control over the army. Yoweri Museveni came to power in 1986, and his most significant achievement has been the provision of nearly three decades of political stability. Before 1986 Uganda was renowned for notorious human rights abuses under the regimes of Idi Amin and Milton Obote. It is estimated that half a million people were murdered by the security forces between 1971

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and 1986. The violence was also spread by a number of rebel groups. Despite the fact that many Ugandans do not remember the Amin and Obote years (the median age of Uganda's population is fifteen years), the collective memory of the political oppression is still very fresh. Probably the most frequent answer the authors heard to the question of why Museveni remains in power despite multiple corruption scandals was: "At least we have peace in Uganda."

In other words, the stability and relative predictability of the current administration are ranked highly in Uganda, especially when the country's ethnic and lingual heterogeneity are taken into account. Even the leading opposition party recognizes Museveni's merits in terms of peace maintenance (interview with Rose Nassanga, chief administrative officer, Forum for Democratic Change, Kampala, June 24, 2014). Museveni is the only Ugandan president who has managed to maintain control over the army, and the future army's loyalty with respect to another president is basically unknown. In addition, Ugandans are fully aware that even though the current president does not use the army to terrorize society as his predecessors did, the result of future political turmoil is highly uncertain. According to the authors' observations during antigovernment protests in Kampala in 2014, the army raises much more fear among ordinary Ugandans than the police forces do.

Therefore, any future oil revenues in Uganda will become available to a postconflict society that is ethnically heterogeneous and relatively conservative, and that favors stability over uncertain political change. Norway, by contrast, is a relatively homogeneous country with no fresh memory of internal conflict or an authoritarian regime in its recent history. There is also no single state institution in Norway that might be perceived as crucial for remaining in power (like the army in Uganda). Additionally, as noted by Larsen (2006:628), Norway is "a highly egalitarian society that prides itself on being that." Despite the country's high tax rate (one of the highest in the world), the vast majority of Norwegians do not refuse to pay taxes, and they argue (according to numerous conversations with the authors in Oslo and Bodø in 2014) that the state provides the benefits it is expected to provide.

Social equality in Norway is also visible in terms of income differences. There is a saying that Norway "has some of the world's best-paid manual workers and some of the worst-paid CEOs" (*The Economist* 2013). The commitment to social equality is deeply rooted in Norwegian society, and oil revenues have always been perceived as an asset that belongs to the whole nation and must be managed carefully in order to maintain social cohesion.

In Uganda, the situation is quite the opposite. Representatives of the oil industry claim that Production Sharing Agreements (PSAs) between the government and oil companies benefit the Ugandan state much more than the shareholders. According to one industry insider, "PSA and production license discussions are very thorough. The government is very aggressive in

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pursuing national economic interest. Uganda has one of the best deals, which means that we have one of the worst" (interview, July 1, 2014). Many observers also claim that from the very beginning these arrangements have been surrounded by mystery and presumptions that the government is not acting in the citizens' best interest (interview with Julius Kiiza, Department of Political Science and Public Administration, Makerere University, Kampala, June 24, 2014).

After being sworn in as president, Museveni started to promote a vision of the National Resistance Movement (the NRM, which was transformed into a political party from a guerilla group) as a wide platform, from which all Ugandans could find a space for the development of their political ambitions. He argued that any shift toward a multiparty democracy in Uganda would result in the destruction of national unity and economic decline (Hauser 1999). This vision was partly driven by the conviction that imported political solutions cannot work for Uganda, although the major motivation was fear of politics based on ethnic divisions and the revival of internal conflict (Gakwandi 1999). The vision of an inclusive NRM was a basis for the patronage network created in the 1990s, which has been expanded widely in the twenty-first century (Mwenda & Tangri 2005). The network is not limited to the political elite; it is visible in parastatals, the media, the NGO sector, and even in the religious sphere, and it might be argued, in fact, that patronage penetrates all spheres of life in Uganda. This state of affairs creates a paradoxical situation for the Ugandan political scene in which prominent and vocal members of opposition parties have also entered the ruling elite, and it can even pay to be a critic of the government since this may lead to inclusion in the patronage. The acceptance of patronage has also been facilitated, and to some extent rationalized, by the constant external threat linked to the terrorist operations of al-Shabab and the uncertain regional international environment around Uganda.[3] At the same time, corruption allegations are often used as political weapons against members of the ruling elite who have fallen into disfavor. This has led to another paradoxical situation in which civil servants deliberately extend the processing time of administrative decisions, since they perceive the prolonging of the decision-making process as the best way to prove they did not take any bribes (interview, anonymous, Kampala, June 24, 2014).

At first glance, therefore, it would seem that the rules promoted by the Norwegians in the oil sector, and the core values of transparency, accountability, and access to information, are hardly transplantable onto Ugandan ground. In addition, the "balance of power" among the three institutions in the Norwegian model is hardly adaptable to an environment dominated by a patronage network. Nevertheless, other factors seem to suggest that the Norwegian model is viable in Uganda. Kampala's long and fruitful relations with international financial institutions show that the substance of these relations is far less important than the threat of instability in Uganda. Despite foreign assistance to Uganda having been frozen many times, donors always return to this country. After coming to power, Museveni

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accepted plans for economic reforms proposed by the International Monetary Fund, and Uganda was granted substantial foreign aid. As argued by Mwenda and Tangri (2005), the foreign assistance was of crucial importance for the survival of the Museveni regime, and it helped to consolidate the NRM's dominant position in Ugandan politics. Furthermore, as argued by Hauser (1999), Uganda was not threatened with political conditionality by Western donors in the same way that other sub-Saharan countries were threatened in the 1990s. This might be associated with Uganda's history, its regional role, and awareness that a multiparty democracy could actually lead to temporary destabilization in the country. On this basis, it can be argued that the Norwegian model of oil sector management will be promoted in Uganda despite some compelling arguments that it does not suit Ugandan circumstances. It can also be argued that Ugandan relations with Western donors have led to the partial democratization of Ugandan politics, and that the establishment of the appropriate legal framework for oil production may be essential for avoiding the resource curse in the future.

The Norwegian Model as a "Safety Valve" of Ugandan Politics

Finally, the Norwegian model seems to offer other specific benefits to the Ugandan state. Alongside the role of patronage networks in shoring up the Museveni regime are a number of other "safety valves" that have been created to shield the government from conflictual relations with the independent media and the political opposition (interview with Suzi Muwanga, Department of Political Science and Public Administration, Makerere University, Kampala, July 4, 2014). These safety valves have a number of functions. They not only channel criticism in a chosen direction, but they also maintain social apathy by serving as a release for frustration. In other words, the ruling elite is aware that the less politically active the citizens are, the greater the chances of the NRM's staying in power. Limited criticism of the government is allowed, but it is carefully controlled.

The Ugandan government's relations with Norway in terms of its advisory services in the oil sector can be perceived as one of these safety valves, since it legitimizes the political elite by showing that it is trying to build a transparent and accountable system of oil revenue management. It can be argued, in fact, that the debate regarding the introduction of the Anti-homosexuality Act in 2014 was another one. Paradoxically, the international condemnation of President Museveni that resulted from this situation legitimized him in Uganda as a leader who is not afraid of foreign pressure and, what is more, as someone who upholds "traditional Ugandan values" (*New African* 2010:79). President Museveni succeeded in creating nationwide consensus in this regard, and his stance, including the adaptations he made in response to the freezing of development assistance by Western donors, legitimized him as a state leader. However, in regard to Norway, the adaptation of the Anti-Homosexuality Act, and Norway's response of freezing part of its aid to Uganda, caused what might be called a "conflict

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of safety valves." Nevertheless, due to the substantial increase in Uganda's tax revenues, foreign assistance does not play as important a role in balancing the budget as it played in the 1990s (interview with Andrew M. Mwenda, strategy and editorial director of *The Independent*, Kampala, June 27, 2014).

Conclusion

There is little doubt that the Norwegian experience in oil sector management can serve as an inspiration for sub-Saharan states. New African petrostates such as Uganda (and Ghana) have expressed a desire to learn from Norway. This does not mean, however, that mechanisms and procedures designed and implemented in the hydrocarbon sector in Europe will lead to similarly effective results once they are transplanted to other parts of the world.

As the case of the Norwegian model of oil production and revenue management proves, a properly managed mineral resource boom can substantially improve the general living standards and economic prospects of a country. Nevertheless, implementation of such a model is not an easy task, and the mere establishment of the Norwegian institutional triad of fiscal policies does not guarantee a favorable outcome. The Norwegian model is processual in nature; it developed gradually and was adapted to a constantly evolving internal and external environment. Such a process requires adequate institutions, regulations, and procedures. In Uganda the political landscape, and an institutional structure characterized by neopatrimonialism and clientelism, is not easily compatible with the Norwegian model of oil-sector management. While the vast Ugandan patronage network has proven to be an effective tool in mitigating potential conflicts and sustaining social cohesion, it also creates ineffectiveness and a lack of transparency in policy implementation. There is a risk that additional flows of oil revenues will serve mostly as yet another factor cementing the patronage networks within the Ugandan political landscape.

Nevertheless, at present the Ugandan political regime seems to be very stable, and it could be argued that a windfall of oil revenues to shore up the patronage system will be a major factor contributing to social peace. At the moment the government's commitment to the implementation of the Norwegian triad persists—at least on the level of political rhetoric. Official commitment to the Norwegian model of oil sector management legitimizes the political elite by showing that it is trying to build a transparent and accountable system of oil revenue management. It also appears likely that additional oil revenues will not contribute to social unrest or function as any sort of resource curse, at least not in the short term. It remains to be seen, however, whether any future mismanagement of oil money, similar to what took place during negotiations over the Production Sharing Agreements, will lead to another political struggle.

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Notes

1. The authors conducted more than twenty semi-structured in-depth interviews with politicians, civil servants, representatives of civil society, academics, and representatives of the oil industry. Field research in Uganda was conducted in June and July 2014. The respondents were asked for their opinions about two general questions: Uganda's readiness for the oil production phase, and the possibilities of transplanting the Norwegian model of oil sector management to Uganda. Each respondent was also asked targeted questions corresponding to his or her field of expertise. The average length of the interviews was 42 minutes. Due to the sensitivity of the issue of oil production in Uganda, some sources have been anonymized. Similarly, in Norway the research techniques included in-depth interviews and direct observation.
2. The term "Dutch disease" was initially coined by *The Economist* to describe a phenomenon that occurred in the 1960s in the Netherlands when an inflow of natural gas revenues caused sharp appreciation of the local currency and,

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therefore, decline in competitiveness of other non-booming tradable sectors (e.g., manufacturing, agriculture). Despite a windfall of revenues from natural gas, the Dutch economy experienced a decline in economic growth, de-industrialization, and lower investment in the non-gas sectors.

3. High-level antiterrorist alerts are announced frequently in Kampala, and despite its small size, Uganda is very active in terms of military engagement at the regional level. Uganda People's Defence Forces operate in the Democratic Republic of Congo, South Sudan, and most notably, in Somalia, where more than six thousand Ugandan soldiers are engaged in the African Union Mission in Somalia (AMISOM). The key role played by Uganda in providing intelligence information about meetings of al-Shabab leaders led to their killing by U.S. drones. Fortunately, so far a successful attack has occurred only once, in 2010, when a suicide bomber killed seventy-six people. But this state of constant threat creates favorable conditions for the NRM to stay in power.

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