Early hopes that oil would bring easy money to Ugandans have given way to fears that foreign businesses will get the biggest slice of the cake while Ugandans just pick up the crumbs.

In this issue, we look at the challenges that local companies and individuals face in taking advantage of the job and business opportunities that oil brings.

We ask whether the private sector is ready for the challenge, and whether the government’s ambitious pledges on ‘local content’ are realistic.

We also ask: how local should ‘local content’ be? Is it good enough for Ugandans in general to profit from oil, or should special efforts be made to give preferential treatment to people in the oil-bearing regions?

With ten billion dollars of investment to pump out the oil, and rapid urbanisation in western Uganda’s oil towns, the Albertine Graben is likely to be transformed in the coming decade. Who is making the development decisions? Are local people and their elected officials being left out? We ask a range of distinguished guest contributors to comment.

And we also offer a small reminder that oil is not Uganda’s only natural resource. Alongside land and an array of minerals, the resource that has long provided most income to most people is, simply enough, salt.

Costly licenses eliminate local firms

East Africa is fast becoming the preferred destination for international oil and gas companies following impressive discoveries across the region.

Eager to cash in on this bonanza, East African governments are licensing more blocks to attract other companies and ultimately ‘de-risk’ as much territory as possible.

Tanzania, buoyed by so-called world class discoveries of natural gas, has plunged straight in, launching its fourth competitive licensing round in which eight exploration blocks are up for grabs. The country has already captured the interest of some of the world’s biggest oil and gas companies and will be looking to sustain this trend in this bidding round which will go well into the first half of 2014.

Uganda and Kenya are planning licensing rounds possibly in the coming year.

Yet despite pleas for preferential treatment from local businesses across East Africa, it appears that the status quo of international oil companies dominating the industry will remain, at least for now.

Not many locally-grown companies can afford to participate, even in the preliminaries, of such a bidding process.

In Tanzania, a company will need at least US$750,000 to purchase the mandatory Bid Round Data Package (BRDP) for the offshore blocks that contains the requisite information for one to place an informed bid. Other more sophisticated data packages are going for as much as US$ 3.375 million.

It is impossible to place a bid without these data packages, which give scientific data enabling bidders to assess the chances of a block containing oil or gas. There are strict confidentiality rules attached to the purchase of this information, ruling out the possibility of different local companies sharing the information.

In Kenya, any oil company intending to acquire an oil exploration licence will have to present audited accounts showing a minimum cash balance of at least one hundred million dollars.

Successful bidders must also pay a signature bonus fee of one million dollars, and spend at least half a million dollars on “Community Development Projects” in Kenya every year.

...continued on page 2
Kenya’s Commissioner for Petroleum Energy, Martin Mwaisakanyi Heya, told Oil in Uganda that the steep requirements are meant to discourage smaller oil companies from entering the oil and gas sector.

“We are no longer a frontier country. We want companies with money,” he said, adding, “We have had a lot of challenges with small companies [failing] to execute their work programme.”

McHeya’s comments show that complaints from local businesses that East African governments only care about foreign investors may be valid, but then again, who really wants a cash-strapped investor?

Uganda itself has had a share of risk taking ‘wildcatters’, more interested in trading blocks to the highest bidder for a handsome profit, than executing the agreed work programmes.

Starting with the Uganda Works and General Engineering Company in 1995, whose contract was cancelled a year later because they failed to meet their work obligation, government has had to deal with Heritage Oil and Gas, Hardman Petroleum, Energy Africa, Alpha Oil, Dominion, Ophir Energy and Octant Energy in the last eighteen years—yet the oil remains in the ground.

None of these companies showed much interest in developing Uganda’s petroleum resources. They were clearly more interested in quick returns. Heritage made hundreds of millions of dollars in profit when it sold its rights to Tullow in 2012.

Tullow on the other hand, despite its relatively modest wallet, has managed to move the industry ahead, attracting international major Total, as well as CNOOC, which is the proud owner of Uganda’s first ever production license for its Kingfisher assets.

Enter the National Oil Companies

The only local company which may have the ‘opportunity’ to participate directly in Uganda’s oil and gas exploration will be the state-owned National Oil Company. This will be entitled to a 15 percent ‘carried interest’ in the country’s oil and gas assets.

This does not mean that the government will buy into the industry by handing over cash. Rather, the companies will cover the National Oil Company’s share of investment, and the government will repay this when oil starts flowing.

Kenya already has a National Oil Company, which has cut its teeth in the midstream and downstream sectors by operating the Mombasa refinery and a string of petrol stations, but exploration and development work will be a totally new area to them.

Tanzanians have made it clear that they will not give any preferential treatment to indigenous private companies, arguing that the interests of Tanzanian are taken care of by the Tanzania Petroleum Development Corporation (TPDC).

“We as Tanzanians get the [international oil] company, when they make the discovery, they go to the production stage. They take 25 percent, we take 75 percent of the profits; or they take 35 percent and we take 65 percent. The 65 percent is being held by TPDC in trust, on behalf of all Tanzanians,” said President Kikwete at the launch of the licensing round.

Indigenous companies maybe keen to claim a chunk of the region’s oil and gas industry, but for the meantime, they may only afford to participate in the service industry which has cheaper entry requirements.
It’s not just oil

By Chris Musiime

LAKE KATWE, KASESE DISTRICT: 10,000 years ago, volcanic eruptions created 52 crater lakes in the Queen Elizabeth National Park, Kasese District. One of these, Lake Katwe, has long been the source of most of the salt consumed in Uganda.

Unlike the oil and gas industry where only big spenders with colossal sums of money can afford to venture, the Lake Katwe salt mining industry is dominated by ordinary Ugandans, some of whom started off with as little as five hundred thousand shillings (US$ 200).

The shallow lake has been divided up into hundreds of small, square plots called salt pans, demarcated using earth and pieces of wood. About 800 people, a quarter of whom are women, own at least one salt pan here, with some owning several.

Acquiring a plot here costs anything between one and four million shillings depending on its size, although it is not common to find one on sale.

A tourist guide to the area claims that some of the salt pans existed as early as the 14th century; possibly an exaggeration, but this is certainly one of the oldest ‘extractives’ industries in Uganda.

Better than agriculture

Regina Kasangaki has been earning a living from salt mining since the 1960s, when she was in her early teenage years. She says she was introduced to the business by an aunt “during the Toro Kingdom days.” She told Oil in Uganda that the salt business is better than agriculture and she had never considered abandoning it for farming.

“Here, the seasons are more predictable, unlike farming,” she said. “There is also no risk of the wild animals eating or destroying your crops.”

She however admits that business is slower during the rainy seasons because the harvests are done during the dry season.

Florence Katende who chairs the Mahonde Women’s group of female salt miners, also has no regrets.

“I have got money to pay my children’s school fees, bought cows and built a house from this salt,” she said, adding that she saves 60-100 thousand shillings a month. One of her sons recently acquired an Education Degree from Makerere University, while her daughter is pursuing a Diploma at another institution.

Oil fears

Most of the miners confess that they know little about oil, yet some of them express fear that oil activity may affect their business.

“We hear there is oil here and they will come and buy us out,” says Nantezza, an elderly miner well into her seventies. “But where shall we go?”

Florence Katende, who is also a Local Council Chairperson, says the locals have heard a lot of contradictory information about oil and some are convinced it will affect their work.

“We think if they drill it will affect our salt,” she says, without elaborating. “Yet we can’t qualify for the oil jobs.”

Regina Kasangaki is more resigned. “Only God knows (if oil will affect the Lake). For me my concern is here, I don’t care about the oil,” she says.

Kasese is one of Uganda’s most endowed areas. As well as salt, it has copper, limestone, a thriving fishing industry in Lakes George and Edward, a National Park and a recently commissioned geothermal plant.

With all this natural resource wealth, who really needs oil?
FOR THE RECORD: A round-up of major developments in the last three months

South Sudan’s first refinery just weeks away
South Sudan’s first refinery in the oil producing Bentiu State is scheduled to become operational by the end of this year, and another in Unity State by end of 2014, as the newly independent nation strives to diminish its over reliance on Khartoum for its crude oil sales.

According to the Managing Director of the state-owned Nile Petroleum Corp., Pal Adong Deng, the two refineries will have a combined refining capacity of 22,000 barrels per day (bpd).

The one in Bentiu, a $100 million facility with a capacity of 5,000 bpd, is a joint venture between Nile Petroleum and Russia’s Safinat, with a 30%-70% equity split respectively.

South Sudan produces about 220,000 bpd which it exports by pipeline across Sudan. A dispute between the two adversaries over transit pipeline fees halted South Sudanese production last year, and brought its economy to its knees.

Another show down looms in Parliament over Public Finance Bill
Opposition MPs are calling on government to re-table the Public Finance Bill in Parliament after the Ministry of Finance made several amendments to it.

Parliament’s Finance Committee is currently scrutinising the Bill, which also has section of petroleum revenue management.

A section of the MPs are urging government to consider drafting a separate law to cater for oil revenues, while others are concerned that the new Bill will eliminate the Budget Act 2001 and the Public Finance and Accountability Act 2003 effectively trimming Parliament’s oversight function on the country’s finances.

Biggest gas deal awaits government approval
In what commentators are describing as the first major deal in Tanzania’s budding natural gas sector, Ophir Energy PLC has sold a share of a giant natural-gas discovery off the coast of Tanzania to State-owned Pavilion Energy Pte. Ltd. of Singapore for $1.3 billion.

Pavilion, will get a 20% share of Ophir’s licenses in Blocks 1, 3 and 4, off the coast of Tanzania. The deal now awaits Tanzanian government approval.

Pavilion beat India’s biggest natural gas distributor to the deal, as more Asian firms continue to turn to Africa to satisfy their insatiable energy demands.

Tullow finds more oil in Kenya
Tullow Oil plc announced a fifth oil discovery in Kenya’s Lokichar Basin in November, less than a month after locals protested being denied jobs and business opportunities, forcing the company to temporarily suspend its drilling operations there.

Having reached a deal with Kenyan government and local leaders, Tullow resumed drilling and its Agete-1 well promptly struck oil “with an estimated 100 metres of net oil pay in good quality sandstone reservoirs.”

Investment analysts quoted in financial media say it now seems likely that the Lokichar Basin contains at least 500 million barrels of oil.

East Africa’s only refinery no more
Kenya’s Energy and Petroleum Cabinet Secretary Davis Chirchir recently revealed that the government planned to convert its troubled refinery into a storage facility for imported refined products, in line with recommendations made by the Energy Regulatory Commission in April this year.

This followed an earlier announcement by Essar Energy, a 50% shareholder in the refinery with the government of Kenya, that it had withdrawn from the partnership, and was planning to sell its shares because the project was not financially feasible.

According to the Kenya Energy Regulatory Commission, the government has lost 13 billion Kenya shillings in the last two years due to inefficiencies of the refinery and it was proving to be more costly to refine products at the facility.
When oil brings misfortune

By Chris Mushiime

“My cows were killed by oil waste”

Heritage Oil and Gas, the UK-based company that first struck oil in the Albertine Graben, left the area years ago, but its ‘legacy’ lives on. A cattle-keeping family from Rovebengo Sub-County, Ntoroko District, claims their livestock died after Heritage buried waste on their land more than ten years ago.

Yoweri Bamuhiga, a resident of Makondo village, recalls that “When I heard the foreigners had come, I slaughtered a cow, put it on my pick-up with some sodas and drove to their camp.” This, he says, was in keeping with the local custom of showing hospitality to visitors.

But several days after feasting with the oilmen, he woke up to find they had cut a road through a section of his land, without his permission, to create a temporary airstrip.

“Sometimes there would be three planes landing here a day,” recalls James Kahwa, Yoweri’s son.

Worse was to come. Some weeks later, again without consulting Yoweri, the ‘foreigners’ dug a pit in another section of his land, about three kilometres from his house, and started burying drilling waste there.

When the rains came, water collected in the pit and his livestock started drinking it, leading some to die. “I lost many cows and goats,” says Yoweri. He had to shift his remaining animals to other areas to save them.

Heritage refuses to discuss the case but Naomi Karekabo, a public relations officer with the National Environment Management Authority (NEMA), claims the matter was settled amicably.

“When Heritage was leaving that area in 2004, all the waste was treated and disposed of in accordance with the restoration plan submitted to NEMA,” she wrote in an e-mail response to Oil in Uganda. “All pits were restored,” she said, adding that Heritage compensated Yoweri to the tune of three million shillings for using his land.

Yoweri denies ever receiving any money from the company. (Additional reporting by Beatrice Ongode)

Nwoya man cursed by oil

In Parongo Sub-County, Nwoya District, Douglas Oluoch bitterly regrets a deal he struck with Heritage in 2008.

In return for USS 300 cash from a Heritage employee he can identify only as Albert, he let the company use his land to bury waste from exploration wells in Murchison Falls National Park.

His neighbours have since shunned him, accusing him of putting the entire village at risk. Two of his three wives have left him, fearing they would contract deadly diseases. No one will buy his produce.

“I wish you were a member of my family and I gave you this cassava to sell in the market. You will see how people will run away from you,” he says. “Even water from here, people are almost refusing to drink it.”

Oluoch and his neighbours are victims not just of Heritage malpractice but of uneven and conflicting information.

NEMA maintains that the waste is not hazardous.

But Oluoch says he has received a stream of visitors since Oil in Uganda reported his case in 2012. Visitors have included MPs, ‘white people’ who described themselves as consultants, and civil society organisations who took samples and “told me to stop consuming this cassava.”

The matter was also discussed on local radio shows.

At the time of Oil in Uganda’s 2012 report, Total E & P, which inherited the mess from Heritage, said they planned to move the buried waste to their camp at Tangi, but this has not yet happened.

The company maintains that it will undertake “necessary and appropriate measures” once NEMA and PEPD give it guidelines “on how to manage the waste basing on the analysis of the laboratory tests that were carried out.”

“Total owes me a house”

Heritage cannot be blamed for a new dispute in Nebbi District though.

A family in Alui Sub-County claims that houses in their compound came close to collapse and had to be rebuilt after Total conducted a seismic survey in the area.

“They first came with a grader and created a path and then came with these machines where they were exploding the ground. It was like an earthquake,” says 68 year old Hillary Ochama.

“I advised them to pass towards the extreme end of my land but they begged that there was no solution for them. They said that is how they measured and that is how they would move,” he recalls.

Local Council Chairman, Joseph Onegi, says that Total staff inspected the family compound before starting work, obtained signed consent forms from the owners, and returned three weeks after the exercise to verify that no damage had been done.

Ochama later complained to the Chairman that cracks had begun to appear in three of the houses in his compound. Onegi contacted the Total Community Liaison Officer “to come and see what was going on,” but almost a year later, no Total official has set foot in the area.

Ochama says he has since spent 600,000 shillings rebuilding his house, which he wants Total to refund.

But Total will hear none of that, saying it “cannot be accountable for cracks appearing two months after completion of the seismic activity” because “other parameters can account for the appearance of these cracks such as the changing weather conditions.”

These cases are reported in more detail on www.oilinuganda.org
What does oil mean for Ugandan farmers?

By Flavia Nalubega

Supplying fresh produce to oil workers has been widely touted as one of the potential benefits of oil exploration for rural people in oil-bearing districts. Yet local communities and activists claim that the catering companies serving the oil camps source most of their produce from outside the oil areas, even from abroad.

Catering contractors to the oil industry dispute these claims, insisting that they do buy produce from locals in Hoima, Buliisa and Masindi.

“We had a local supply chain which we developed over six years. We got involved with Traidlinks (see text box) who would ensure that the Hoima guys supply good stuff,” according to Peter Bowser, co-owner of Equator catering services, which had a contract to supply Tullow camps in Buliisa and Kaiso-Tonya from 2006 to 2013.

Mr Bowser, a British citizen, describes his company as “Ugandan by registration.” He adds that “I have been here since 1964, about 95 of my 100 employees are Ugandan. My company is local and I promote local content.”

Asked about claims that Ugandan farm produce is not good enough for the oil camps, Bowser says that “The issue of quality is there, but it is something we can work on. Like meat: I used to buy it from a man who brought it in a polythene bag on a bicycle, but now the same man brings it in a refrigerated vehicle. We have been very patient with him and supportive and we have helped him improve his quality of supply.”

Locals in Kaiso village, on the shores of Lake Albert, report that caterers from Tullow’s nearby oil camp buy fish and soda from the village market.

Mr Bowser admits, however, that Equator went to Kampala or even international markets for some produce, such as salad ingredients. These, he says, were either not available locally, or of inadequate quality.

This year, Equator lost its Tullow catering contract in a re-bidding exercise. The contract has now gone to the Supreme Group, a USA and UK based company that specializes in providing services to military forces and extractive industries.

Supreme were not available for comment on whether they would maintain Equator’s local supply chains.

The bigger picture

Dr. Charles Kajura, Hoima District Production Officer, has a less positive view of the catering companies.

“They buy Hoima’s products on a small scale, very small, less than 20 percent of the total supply going into these caterers,” he says. “Most of it is bought from Kampala and outside. They always use the poor quality excuse.”

Dr. Kajura reports that, partly thanks to the efforts of groups such as Traidlinks, the number of farmers in the district involved in horticulture has recently grown by more than 20 percent. Many local farmers, he says, are now growing good quality fruits, tomatoes, cabbages, carrots and green peppers.

This, he suggests, is because of significant increase in local demand.

Oil exploration may have triggered that demand, but the main factor is now the rapid population growth that oil has brought to Hoima town. According to Town Clerk, Emmanuel Banya, Hoima hosts an estimated 200,000 people, up from just 45,000 five years ago.

Masindi town is also growing fast, and some smaller centres, including relatively undeveloped Buliisa town, are likely to follow suit.

This is a much bigger market for local produce than the oil camps, the largest of which generally houses around 200 employees.

Over the next few years, as the oil refinery and other infrastructure is built, there will be a further influx of workers from elsewhere into the oil-producing areas.

These new mouths to feed will add to local demand for food.

By the time oil comes on-stream, the Albertine region will be transformed. Towns and trading centres will have larger, settled populations. Better roads (and, perhaps, rail) will link them with each other and with the rest of the country.

The big question for the region’s farmers is whether they can benefit from this transformation.

Transforming agriculture

Bigger urban populations mean bigger markets for farm products. Experience around the world also shows that, as people move to towns and become more ‘middle class’, they eat more meat and vegetables.

Encouraging farmers to move away from subsistence agriculture and to grow more cash crops has long been a cornerstone of government agricultural policy. But local farmers will not necessarily be the first to benefit from urban markets developing in the oil regions.

Locals will have to compete with produce coming in from other parts of the country — and improved infrastructure may intensify this competition by reducing transport costs.

Already, according to Professor Augustine Nwagaga, a political economist, “There is a likelihood that the food is coming from other parts of the country into Hoima.”

Yet, according to Lawrence Bategeka, a policy analyst at Makerere University’s Economic Policy Research Centre, “There is a lot needed to enhance agriculture in Hoima, but little is being done to support farmers because most of them are not big scale farmers.”

Minister of Agriculture, Tress Bucayandi, confirmed that central government has no plans to offer special support for oil-region farmers. “We are putting in place programs to grow the entire sector, not what suits a specific area,” he told Oil in Uganda.

This is in line with the free-market principles that have guided Ugandan policy under President Museveni, and that international donors and financial institutions encourage.

But lack of preferential treatment may disappoint some locals, who feel they are suffering the disruption of oil but see few immediate benefits.

---continued on page 7---
Which farmers can benefit?
The shift from subsistence to more commercial, market-oriented farming requires capital and technical skills that are in short supply among the peasant families who still make up the great majority of the population in the oil regions.

New opportunities may therefore be dominated by better-off and larger-scale farmers, leaving the majority behind.

According to Fredrick Kawooya, a livelihoods expert with ActionAid-Uganda, the once-vibrant Savings and Credit Cooperatives (SACCOs) are no longer well placed to spread opportunities more evenly to smallholders.

“These cooperatives are not strong enough anymore, and their weaknesses are beyond the strength of the locals,” he says. “This should be the role of government, to establish the markets, and study the demands of this market so that farmers know how to address these demands.”

Small farmers, he points out, need storage facilities for perishables, and this also requires government support.

He adds that few Ugandan farmers are “professionals.” They need more training in the field.

Kawooya warns, however, that progress for small farmers will be hard to achieve without improvements to the policy on SACCOs.

“The enforcement is wrong; they are formed with the wrong motive. Government should provide funding to the institution responsible for reviving SACCOs, the Uganda Co-operatives and Savings Union and the Uganda Cooperatives Alliance, then withdraw and let cooperatives take charge and grow unsupported.”

‘Dutch disease’
In the longer term, many economists fear that the notorious ‘Dutch disease’ may cast a shadow over Uganda’s agricultural sector.

When natural resource revenues come on-stream, a country’s currency tends to increase in value. This is the ‘Dutch disease’ syndrome. It has the effect of making imports cheaper, and exports less competitive.

This could create further difficulties for small farmers, who may find themselves even less able to compete in local markets with relatively cheap products coming in through improved, regional transport routes.

In addition, Lawrence Bategeka warns that “What should worry us is that the sector is likely to suffer when oil starts flowing because people will move away into the service sector which cannot employ everyone. People are going to run out of agriculture, and therefore productivity will be low.”

He adds that “Agriculture programs like NAADs are not doing enough.”

Most experts therefore agree that the prospect of oil revenues should make the government pay more, not less, attention to agriculture.

Linkages and training help farmers supply oil camps
A farmers’ group in Hoima that linked up with Traidlinks, a not-for-profit organisation backed by Tullow Oil, has managed to penetrate the oil camp market for fresh produce.

The Hoima District Farmers Association (HODFA), which was established in 1992 and now has more than 6,000 members, partnered with Traid links to help farmers understand high-end market needs, and improve their capacity to supply the oil camps and other local businesses such as restaurants and hotels.

A Hoima Enterprise Centre, set up by Traidlinks with funding support from Tullow trains and advises farmers on how to improve the quality of their produce and on business planning and marketing. Uganda’s Private Sector Foundation provided technical support.

The Enterprise Centre also buys and packages food from local farmers for selling on to oil catering companies. “We hope to work with the new catering company, Supreme, to spread our wings and increase supply,” says HODFA Chair, Monica Kabatooro.

Ms. Kabatooro stresses that HODFA works hard to make sure that women farmers benefit from their increased efforts.

“Women do the cultivation work, the dirty work, while men mainly come in during marketing,” she says. “When we reach marketing, the number [of women] starts dropping. Women involved in this sector are about 40 percent while men are 60 percent.”

Even with efforts to improve quality, however, the market is not assured. While addressing local investors in the oil sector in Kampala recently, HODFA Coordinator, William Byenkya complained that they were forced to decrease the supply of vegetables to one oil camp, with no explanation.

“They reached a point when they told us to supply one cucumber per round of supply. We can never be sure of how much supply they want,” he said.

Nevertheless, Traidlinks’ Agriculture Supply Chain Project Coordinator, John Bosco Kalule, says the project is expanding to Masindi and Buliisa. A partnership has already been established with Masindi District Farmers Association while Buliisa is in the process of forming an association that will begin operations in 2014.
How is oil impacting on the distribution of political power in Uganda? Is it empowering local government and communities, or concentrating more power at the centre? We asked a range of Ugandan thinkers and public figures “What impact is oil having on political and economic relations between the Ugandan state, local administrations and people in oil-bearing areas?” Here are their answers.

**Frederick Golooa-Mutebi**

The impact on political relations has been negative. Local governments and ordinary people with whom they are meant to confer on a wide range of things under the law, are now able to make fewer and fewer decisions, especially pertaining to issues to do with land tenure and ownership, and compensation for appropriated property.

Economically, the government, perhaps because it wants to be seen to have taken the interests of local people into account, is doing things, such as building roads and also pressurizing the oil companies to be socially responsible, which in the end will bring some benefit to the oil-bearing areas.

*Dr. Golooa-Mutebi is a political scientist who has extensively researched governance in Uganda and Rwanda. He writes a weekly column for The East African.*

**Shem Byakagaba**

The discovery of oil has raised a lot of expectations among Ugandans especially the host communities. The public expectation is that oil will result in substantial business and job opportunities and general improvement of peoples’ livelihoods.

But this remains a big challenge because the petroleum industry is highly technical and capital intensive. Very few people in the host communities can directly benefit. The visible benefits currently are the limited infrastructural developments and the few oil company corporate social responsibility projects, which are not regulated or necessarily consistent with the development plans.

Moreover, the oil industry has come with political, social and economic challenges like increase in population, internal migration, artificial valuation of land, land grabbing, reduced agricultural production, unplanned urbanisation and general pressures on the social services.

It should be noted that 80 percent of people in the front line communities are peasant farmers and hence depend on land.

It is therefore critical for government to take care of the unique circumstances of the oil bearing areas. The local governments do not have the capacity to deal with them. Current legislation, though insufficient, is not appreciated at the local level. It’s the responsibility of the [central] government to ensure that capacity is built at all levels to enhance participation and oversight.

There is need for meaningful enforcement of local content and participation. The notion of corporate social responsibility which is tokenism and from the oil companies, is not sustainable. People must be empowered to participate in the different phases of the oil industry value chain.

There should be adequate share of the oil revenues for the host communities including the local governments and the cultural institutions, their capacity in terms of absorption notwithstanding.

Most local businesses are informal and not registered and/or employ less than five people. These informal enterprises are highly susceptible to poor performance and early mortality. The majority do not belong to any business association such as a local chamber of commerce or traders’ association.

This denies them bargaining power to get business opportunities in the industry.

Many businesses based in the oil region spend more time and money complying with regulatory requirements than businesses based in Kampala. Government needs to work with the local governments to ease this. This includes allowing internet access and computers to make compliance with e-tax more possible. Government should also facilitate access and use of financial institutions and services. Most of our people are totally excluded from the financial sector and are actually not bankable!

The region lacks structured, coherent, consistent and comprehensive financial literacy and business development service programmes.

Instead of blocking sharing of information, government should work with civil society and local governments in providing greater information about all matters related to oil and the attendant opportunities and impacts.

Provision should be made for community content especially with regard to provision of goods and services, training and employment of local people to ensure direct benefits for the resource rich regions.

*Shem Byakagaba is a lawyer, consultant, Executive Director of Kitara Heritage Development Agency and Attorney General of the Bunyoro-Kitara Kingdom.*

**Winnie Ngabiirwe**

Economically, the developments are threatening to create a poorer population whose means of income are being disrupted by a poorly executed resettlement and compensation exercise for the 7,118 refinery affected persons.

Despite the clear legal and policy requirements, communities are losing money through under valuation of their property, and they lack adequate preparation on how to utilise their compensation money to do meaningful income generation. Women have abandoned cultivation and therefore they have no harvests to sell and earn an income. No new business skills are being acquired. They are basically on a bus to greater poverty and increased crime rates.

Politically, oil discovery has exposed how decentralisation has been quietly and successfully implemented in nearly all political and administrative offices in the Albertine region. Elected leaders, boards and chairpersons are powerless and have no idea what is going on in the oil developments.

We have citizens who feel betrayed by their leaders, amidst cries for protection against land grabbers, and for environmental protection. It could escalate into insecurity, but those in political space are determined to stay in there.

*Winnie Ngabiirwe is the Executive Director of Global Rights Alert.*
Our conversation should revolve around the ownership of oil.

According to the Uganda Constitution (1995), land belongs to the citizens of Uganda. However, mineral resources, including petroleum, belong to the state. But the communities where the oil is claim ownership. Ugandans are not yet able to make the requisite investment and organize the extraction of oil on their own. So foreigners play the dominant role in the industry putting in the money and the expertise. Consequently they take the lion’s share of the profits. They also provide most of the oil-related work to their own people. African governments have very little bargaining power which is considerably reduced by the cancer of corruption in a field where there is serious money.

Oil in Uganda is shrouded in mystery. The Production Sharing Agreements are a state secret. It is this lack of transparency that leads Ugandans to believe that there will only be a few beneficiaries from oil revenues, namely those who are politically well connected. In Buliisa, where oil activities are ongoing, bigwigs from outside the district and even from outside Bunyoro kingdom have bought land. This was communal land and in our cultures the community consists of the living, the dead, and the unborn. So who sells communal land?

Buliisa is part of the ancient kingdom of Bunyoro and all Banyoro claim the oil as theirs. But the kingdom is not an administrative entity. In this oil business the kingdom is a historical relic but the Omukama of Bunyoro, with authority but without power in this area, believes that the oil belongs to the kingdom. Nobody is telling the Omukama and Banyoro the truth. Government should come out and state what the position is to prevent future wrangles and even violence in Buliisa and elsewhere where the oil industry will be established. We have seen violence in the Niger delta in Nigeria because the people there do not feel the ownership of the oil in their land. We do not want violence around the Lake Albert basin.

Since moneybags from outside Banyoro have bought land in the oil-rich district of Buliisa, and will be compensated or have been compensated already, and since Ugandans can acquire land anywhere in the country, the Banyoro should be sensitized to this reality in order to tame their expectations.

Banyoro being driven out of their land in Buliisa to create space for the oil industry are complaining that their compensation is peanuts. This does not augur well for the stability of the oil region.

The oil companies can pre-empt the damage through social responsibility programmes, in liaison with government. They should improve the schools and health facilities. They should engage the locals in sports, music, drama, and dance. They should at least give the unskilled and semi-skilled jobs to the locals. They should create a stake for the local communities in the oil industry now and not tomorrow. People in the area have to be reassured that the oil belongs to them too.

Samwiri Lwanga Lunyiigo is a historian whose works include a 2008 book on The Struggle for Land in Buganda. He is a research associate at the Makerere Institute of Social Research.

Arthur Larok

This is an urgent question to ask, reflect and seek answers to in these ‘early days’ of oil exploration in Uganda.

In a post-colonial establishment as Uganda is, we have yet failed to outgrow the ‘colonial tax state’ model constructed during colonial times. The politico-economy of state formation was such that state institutions and investments were made to exploit natural and other resources for the crown. The infrastructure created around this model of exploitation without much regard to the idea of substantive citizenship!
Ugandan firms struggle to cash in on oil

By Beatrice Ongode

Over the next few years, trillions of shillings will be spent bringing Uganda’s oil on-stream. Oil companies have said it will take around US$ 10 billion to develop the oilfields.

Most of that money will bring in highly specialised equipment and services that no Ugandan company has the experience or expertise to offer.

Yet opportunities appear to abound for local businesses in areas such as construction of roads and buildings, transport of equipment, machinery hire, legal and a range of other consultancy services.

Allan Katwere, a policy research officer with the Uganda National Chamber of Commerce and Industry, points out that some of the specialised equipment needed by the oil industry will have to be assembled in Uganda from imported components. He believes that some of this work could be done by Uganda’s and would count as “national content.”

As well as sub-contracting jobs for the oil industry, Ugandan companies stand to gain from a general building boom in the oil-bearing regions, as once-sleepy towns and trading centres become oil business hubs.

This ought to be good news for Uganda’s private sector.

Yet some local firms are pessimistic about the chances of landing oil company contracts.

“If these guys require something they set high standards and by the time we try and meet what they need, you find that they have already out-sourced for the same services from other countries and no longer need what we can provide,” says an engineering contractor who prefers to remain anonymous.

“We need trainings on the standards required by the oil companies,” he suggests.

Credit supply
Cash flow is one of the “high standards” required, and a serious challenge for many local players.

For many contracts, bidders have to show that they have a certain percentage of the total contract value already at their disposal in the bank. This is generally required to prove that the company has the means to start the job.

But in practice this can prevent medium sized firms from growing big enough to bid for bigger and more lucrative contracts. One construction company boss described this as a “no-win situation” for his company.

This problem could, at first sight, be remedied by “policy lending” to strengthen Ugandan companies’ financial position and enable them to compete for larger contracts.

The African Development Bank (AfDB) has funding earmarked for private sector loans in Uganda. However, Juliet Byaruhanga, an ADB private sector development specialist, explains that these loans are for US$ 10 million projects and have to be accessed indirectly through commercial banks (Stanbic, Barclays, Standard Chartered etc.).

But these banks themselves have strict borrowing requirements that relatively few Ugandan firms can meet.

Corporate governance
Sources at Barclays Bank Uganda confirm that, to be eligible for business loans, companies must have been properly registered with the Registrar of Companies for at least three years. They must be able to present externally audited accounts for the previous three years.

A senior financial expert who prefers not to be named describes these as routine requirements of “corporate governance” but adds that many Ugandan businesses fail short.

“To borrow from a bank, you have to show how you manage your cash flows and observe the set international auditing standards,” he says. This includes “proof of management meetings” by a board of directors, because serious investors “do not encourage the one-man kind of business.”

It is not just banks that require this kind of discipline. Bids for large contracts will not be considered, the same expert says, if the company cannot show that it is meeting these international governance standards.

Jonathan Namugowa Wanzira, Chair of the Uganda National Association of Building & Civil Engineering Contractors notes that the association members frequently complain of “bureaucratic procurement processes.”

There has also been a tendency, he says, for Ugandan firms to bid too low in an effort to win contracts. “If we had professional contractors, then we would not have under quoting of values,” he concludes.

Corruption
A history of corruption helps explain weaknesses in corporate governance, analysts say.

In a relatively small, developing economy like Uganda’s, the government is the main buyer of goods and services, and many private companies depend heavily on winning government contracts.

In Uganda, public procurement processes have in the past been notoriously weak. As a result, some firms that bid for public contracts have developed bad habits.

Working with international companies could be a learning experience that brings Ugandan firms more in line with international corporate governance and accounting standards.

However, several experts interviewed by Oil in Uganda doubt that this can be achieved by fighting corruption alone.

Many road contractors in Uganda have failed to deliver quality work after being handed lucrative contracts. Have Ugandan businesses been spoilt by winning contracts through back-handers rather than competence?
Local content rules unclear and impractical, say business analysts

By Beatrice Ongode

Sections of Uganda's new Petroleum Act which are meant to maximise oil-related opportunities for Ugandan businesses are hard to interpret and may be impossible to implement in practice, according to business analysts consulted by Oil in Uganda.

Section 125 (1) of the 2013 Petroleum (Exploration, Development, Production) Act states that:

"The licensee [an oil company that receives an oil exploration or production licence] its contractors and subcontractors shall give preference to goods which are produced or available in Uganda and services which are rendered by Ugandan citizens and companies."

This looks at first sight like a clear statement of the principle that the oil industry must, wherever possible, buy goods and services in the local market.

However, Professor Jenik Radon of Columbia University's School of International and Public Affairs says that "preference" needs to be properly defined. "If the prices [a Ugandan company charges] are 10% more, does preference have to be given?" he asks. "The section, he says, needs "clarification in terms of comparable quality, comparable prices, etc."

Albert Ouma, Director of the Small and Medium Enterprises Division at the Uganda Investment Authority, points out that neither is it clear what the clause means by "Ugandan company."

"Is the Ugandan company that which is registered in Uganda or that which is owned by a Ugandan?" he asks.

Alan Katwere, who is Policy Research Officer with the Uganda National Chamber of Commerce and Industry, underlines the same point. He believes the law "makes the erroneous presumption that a company locally registered in Uganda is a 'Ugandan company' rather than taking into account the nature of ownership, the actual degree of in-country value addition and the levels of Ugandan participation in the company's management, ownership and employment."

In short, the law appears to leave the door open for foreign companies to register local subsidiaries in Uganda—at the international oil companies have themselves done—and for these subsidiaries to qualify as "Ugandan companies."

'48 percent' clause

Uncertainty also surrounds Section 125 (2) of the Act, which stipulates:

"Where the goods and services required by the contractor or licensee are not available in Uganda, they shall be provided by a company which has entered into a joint venture with a Ugandan company that provided the Ugandan company has a share capital of at least forty eight per cent in the joint venture."

Bringing Uganda's oil on-stream requires costly, specialist equipment and services—ranging from conducting seismic surveys to building oil refineries—that no Ugandan company is able to offer at present. This clause appears designed to ensure that Ugandan companies get a share of the profits and gain valuable experience through joint-venture partnerships with international companies.

However, business analysts suggest this is like a mouse partnering with an elephant. Ugandan companies, they say, just don't have the money to buy 48 percent shares in such capital-intensive businesses.

"When you talk of 48 percent ownership by Ugandans, where will they get the money to invest?" Albert Ouma asks. "This limits many companies."

"Not many Ugandan companies can afford to own the 48 percent stake in a foreign company worth say US$1 billion (about Shs 2.55 trillion)," agrees Allan Katwere. "Many of these foreign companies are listed companies [on international stock exchanges] so entering such joint ventures would require jumping over complex, exhausting and expensive regulatory hurdles," he adds.

These concerns are shared by Rogers Segawa, Managing Director Nexus Uganda limited, a construction company. "The minimum requirements for a joint venture with an international company are beyond Ugandan medium companies like us," he says. Professors Radon agrees with this assessment. The clause, he says, "is simply not workable across the board." He notes that it lacks a legal definition of "joint venture" and adds that the clause appears to "impose a sharing of profit without [the Ugandan partner] necessarily having the competence."

According to Yahoo! Business News, Schlumberger, the largest oilfield services company, reported third quarter revenues for 2013 of $11.6 billion; Halliburton, reported $7.5 billion; while Baker Hughes earned $5.8 billion.

Each of these three companies earned significantly more than Uganda's annual budget.

Yet the law now allows Ugandan companies to own 48 percent of such companies' local operations if they are to operate in the country, but how many Ugandans can afford this level of investment?
Bunyoro business lags behind

By Edward Ssekika

After the discovery of oil in Bunyoro, local entrepreneurs expected a lot of business deals with both government and international oil companies. But as the country enters the oil production phase, most local companies are still wondering where the oil opportunities are.

“We are yet to get business from Tullow,” says Jackson Wabyona, a Hoima businessman who chairs a local oil and gas advocacy group.

Tullow has spent nine years in the area, but Wabyona can recall only two contracts that went to local companies. Muka Construction built Kyehoro Primary School, which Tullow funded as a Corporate Social Responsibility (CSR) project. Another Tullow CSR project, Buliisa Community Centre, went to Togeka Construction Company—a subsidiary of Threeways Shipping, which is owned by Jeff Baitwa, a Masindi born businessman now based in Kampala.

Wabyona is glad to see national companies like Threeways, Bemuga and Daks Couriers win oil company contracts, but he feels that companies based in the Albertine Graben deserve special attention.

He asks, for example, why Tullow hires trucks from outside the host community. “Where does British American Tobacco (BAT) get trucks to transport their tobacco? BAT gets trucks from here. So why can’t American Tobacco (BAT) get trucks to transport their tobacco outside the host community. “Where does British American Tobacco (BAT) get trucks to transport their tobacco? BAT gets trucks from here. So why can’t American Tobacco (BAT) get trucks to transport their tobacco?”

Wabyona is glad to see national companies like Threeways, Bemuga and Daks Couriers win oil company contracts, but he feels that companies based in the Albertine Graben deserve special attention.

Sub-contract mess

Even if they don’t win large contracts, local companies can at least hope for sub-contracts from bigger firms. But there are recent cases where they have failed to deliver as sub-contractors.

Mid this year a local company, Kibibu Engineering, was sub contracted by Kolin Construction Limited, a Turkish firm that won the contract to tarmac the Hoima-Kaiso-Tonya road. This is a key road in the oil sector, passing through Kahala parish, the proposed oil refinery site, and on to the shores of Lake Albert. Kolin sub-contracted Kibibu to construct drainage channels for the road.

A few weeks after the company started work, the main casual workers it had hired went on strike claiming that they had not been paid. Patrick Bigirwenzika Kyomyo, the Managing Director of Kibibu, says he was waiting for Kolinto pay him so that he could in turn pay his workers, but it was too late and the contract was cancelled.

Ako in July 2013, another local company did things ‘the Ugandan way.’ Tullow contracted Saracen to transport truckloads of waste to Nakasongola waste disposal facility. Saracen sub-contracted a local company, Lamu Peter and Sons Ltd. But instead of taking the waste to Nakasongola, the sub-contractor dumped it in Kisimba village just outside Buliisa town.

The disgusting odour from the waste caused uproar among residents.

Sub-contract mess

Businesses in the oil regions have not yet profited much from oil, but some let themselves down through sloppy standards.

These and other examples show how local businesses can lose opportunities in the oil sector due to incompetence and failure to adhere to internationally recognized industry practices and quality.

Bunyoro entrepreneurs recently formed a Bunyoro Business Club in order to lobby oil companies for contracts.

Sam Mugisa, the club chairperson, admits that compliance with standards and industry practices is one of the challenges the club is grappling with. Some companies plead ignorance of these standards.

“The conduct by our local companies is letting us down,” Mugisa says. Local companies lack enough capital and technical skills, so the easiest way to get businesses is when a big company wins a contract and then sub-contracts some components to local companies. But if we can’t do exactly what we are contracted to do, then that is a problem.”

He believes that unless local companies stop doing things “the Ugandan way” it will be difficult to participate fully in the oil sector.

Standards

Norman Asaba, the chairperson of Bunyoro Growers Union says oil companies should not “hide in standards,” but rather build the capacity of local companies.

“Tullow should borrow the BAT model. When BAT came here, they wanted a lot of tobacco but the farmers did not have capacity to produce the tons that they needed. What they did was to start sponsoring farmers by giving them fertilizers, pesticides and ploughing services and the farmers were able to produce even more than enough,” he says.

Kakiiza Kyaboga, a resident of Hoima town, wants international companies to bend their standards. “The flow of information from Tullow and other international oil companies to the local business fraternity is lacking, or if it is there it is so technical and internationally standardized. Why can’t international companies ask basic requirements and standards like PPDA (Public Procurement and Disposal of Public Assets Authority) certification and tax clearance so that local firms can participate?” he argues.

Bunyoro businesses want trucking contracts from oil companies. But can the oil companies trust the quality of service?
Oil companies try their best to hire locals

By Beatrice Ongode

Protests against an influx of outside workers in Kenya’s Lake Turkana area, which forced Tullow to suspend its drilling operations there in October, underlined the strength of local demands for oil jobs and opportunities.

In Uganda, the situation appears more stable. Civic leaders in oil-bearing regions report broad satisfaction with job opportunities.

“The unskilled work is being done by our locals. The only problem is that the skilled work is given to other people, even when we have qualified people here,” according to Isaac Nkuha, Chair of Buliisa District NGO Forum.

Patrick Kivu, Program Coordinator of the Bugungu Heritage and Information Centre, also reports that the majority of the casual laborers hired by the oil companies in his area are local, Lugungu speakers.

“Despite the fact that they are less than 50, we feel happy that they are from here,” he says.

According to Abhem Friga-Noy, Corporate Affairs Manager for Total in Uganda, the company has employed 198 casual workers in Nwoya District, 211 in Nebbi and 570 in Buliisa.

“Total E&P Uganda has set up a lottery system to make sure that the selection process for recruitment through its contractors is fair and transparent and is within the immediate vicinity of its operations,” she explains.

Applicants have to complete a form which is signed by three local leaders, preferably the LC1 chairperson, women’s representative and youth representative.

The idea, Ms. Friga-Noy says, is to make sure the casual jobs go to people from the area of operation.

Applicants are then selected randomly from a ‘ballot box’ in the presence of community representatives.

Room at the top

All three of the major international oil companies in Uganda also express a strong commitment to employing Ugandans permanently in more technical, clerical and managerial positions.

“We currently employ approximately 250 direct staff out of which more than 50 percent are Ugandans, employed in positions varying from engineers to personal assistants, both in Kampala and in the area of operations,” says Ms. Friga-Noy.

Chai Wei, Corporate Affairs Manager for the China National Offshore Oil company (CNOOC) in Uganda, says her company regards national content as a critical part of their business, and tries to recruit people from oil-bearing regions for technical and managerial positions. Around 70 percent of CNOOC’s staff in Uganda are Ugandans, according to Ms. Chai.

A senior official of the government’s Petroleum Exploration and Production Department, notes that CNOOC has overturned prejudices about Chinese employment practices.

“These Chinese surprised us,” he says. “People say they always carry their entire families and even cooks but this time when they came, they asked us for six months to train Ugandans to operate the seismic equipment. Most activities on seismic operations are manned by Ugandans.”

Tullow most ‘local’

Tullow Oil has gone furthest in ‘localising’ their Ugandan workforce—perhaps not surprisingly, since the company has now been operating in the country for ten years, whereas TOTAL and CNOOC are relative newcomers.

88 percent of Tullow’s employees in Uganda are Ugandan and “over half of our Country Leadership Team are nationals,” according to a recent report by the company.

Tullow’s Uganda operations are headed by a Ugandan—General Manager Jimmy Mugerva—and other senior Ugandan staff include Corporate Affairs Manager, Conrad Nkutu.

Mr. Mugerva is rare among Ugandans in already having extensive experience of the oil industry, gained through a career as an expatriate himself in other African countries.

But Tullow, Total and CNOOC are helping to building local capacity in the industry through a range of national and international scholarship schemes that will train up a new generation of oil experts.

Meanwhile, the companies continue to draw on Ugandans with management, communications and community relations experience. Examples include Ms. Marion Muyobo, who is Head of Stakeholder Engagement for Total E & P in Uganda and Zakalia Lubega, Head of Corporate Social Responsibility for CNOOC.

Additional reporting by Nick Young and Flavia Nalubega
Ugandans must defend their stake

How did you enter this industry?
Ben Mugasha: Well, it started as a joke, way back in 1997 and we happened to be the first (Ugandan) company to bring in the first seismic equipment.

We brought in the first rig in 2000, which was just a small one, about 21 truck loads from South Africa. Of course one thing led to another and later, so many companies started coming in.

The moment you discover oil, you start attracting the ‘big boys’. These are people who have been in this industry for quite some time and they have information, they know how things are done and in most cases they keep these things (information) to themselves.

Eventually there are these contracts and then when you start working with the ‘big boys’, that is when you get to know their true colours. The terms are set in such a way that everything has got to be pro-them and even the nature of the contracts is weird.

Someone gives out a document on Friday, he wants it signed on Tuesday, 700 pages!

However, with all these challenges, what we did, with some few other service providers, was to work as a team to have coordinated operations and that is how we formed the Association of Uganda Gas and Oil Service Providers (AUGOS). It has been helpful.

Is this the group that advocated for 48 % local ownership of service companies in the Upstream Act?

With the formation of the Association, we said look, we are the operators in the oil and gas industry and all these bills are in Parliament. We had to run to parliament and lobby and luckily we secured the 48 %.

Where I see a very big challenge is oil well services. Oil well services is normally a specialised and highly capital intensive area, so here the locals have got limited chances. Companies like Schlumberger, Baker Hughes can come, and by law, they have got to have 48 % (local ownership). Then the first business they bring is the rig about $ 50 million, so you as locals put 48 % of this. But along the way, they get other contracts which total about a billion dollars and you still have to put 48 %.

How did the entry of foreign service providers affect your business?

You see you have got to lose money because you are moving into an area which calls for high level of specialty. For example, this equipment, you can partner with these ‘big boys’ and one of the areas where you need them is the technical know-how and even financial assistance.

For example, the last two years I lost $ 5.5 million, because I entered into a very bad deal where I was supplied wrong equipment that was not fit for the purpose-wrong completely. It was not a mistake, it was just by design. Some of the equipment even never worked. And now we are in court. The point is that even your little hard-earned resources are gone. And if you are not careful, they (resources) are gone along with your reputation, you are destroyed beyond (sic).

...But this is where the government needs to come in. Because I am a tax payer and these people do not pay tax, they don’t. All their money is paid to their offshore accounts and at the end of the day, they go and claim even Withholding Tax from the other side.

They say there is no capacity. I have heard some chips (fries) are being imported from Kenya. I have heard that the (Ugandan) eggs do not conform to their (International Oil Companies) standards because they are small. But the question is, if I go to a hotel, and I ask for scrambled eggs or whatever, do I look for the size of an egg? So all these things are made to discourage (Ugandans). So if you say the egg is small, how are you helping?

How should the government protect your interests?

The body (AUGOS) was formed in April, we all agreed (when we met with President Museveni) that this phase we are going into (the production stage) is highly capital intensive. We can’t survive. Our only survival is when we become competitive and we cannot compete if we have no money.

So we have planned, there is going to be a fund, now that we are getting a little bit organised. It is going to be more or less like the agricultural fund. The teams in oil service provision will access it at 10 %, which is great.

Aren’t you worried this fund may be mismanaged?

No, when it comes to the oil and gas industry, we are serious. That one is at another level but if we can have the fund and it is well managed, that is going to be a relief. We shall definitely be competitive. Because we cannot compete with these guys who get the money at 3 % interest rate and sometimes at no interest at all.

...The media has let us down in a big way. And you are letting yourselves down. You should publish these things. These companies hate bad publicity because they trade on (different) stock exchanges.

(For example) they have got well defined plans on how to involve locals (in their operations) but when they come and the locals are not mindful, they put these plans aside. So you need to consistently expose them.

Questions put by Flavia Nalubega

The full interview is available on www.oilinuganda.org, under the INTERVIEWS section
Yes, Uganda can afford to protect its environment

By Nick Young

Earlier this year, the government of cash-strapped Chad suspended a Chinese National Petroleum Corporation oil exploration licence because the company was proving so environmentally negligent. Oil Minister, Djerassem Le Bemadjiel, accused CNPC of “intentionally” allowing oil spills in order to cut costs.

This is a stark reminder of the huge challenges African countries face in monitoring the environmental performance of international oil companies.

Oil companies in Uganda have deep enough pockets to hire some of the country’s most qualified environmental experts. TOTAL, especially—because it has the tough job of extracting oil in Murchison Falls National Park without scaring off the animals and wrecking Uganda’s tourists industry—has invested heavily in wildlife expertise, and is playing a lead role in various biodiversity conservation studies.

It is right that TOTAL should take these responsibilities seriously. But it is worth remembering that Uganda will eventually pay—through ‘cost oil’—for all investments in ecological mitigation.

And, however good TOTAL’s intentions, the Government of Uganda should not simply pass on to the company all responsibility for environmental management and monitoring. A corporation’s primary duty is to its shareholders. A government’s primary duty is to protect its people, and environmental security is intrinsic to that duty.

Yet Uganda’s own National Environmental Management Authority is notoriously underfunded and understaffed.

Francis Ogwal, a natural resources management specialist with the Authority, told a recent meeting of civil society and oil industry representatives that when NEMA was established in 1995, it had just about 40 staff. Today it has no more than 65, struggling with a growing backlog of environmental impact assessments it is supposed to examine and approve, and with minimal routine monitoring capacity.

District Environment Officers in oil-bearing regions equally lack the resources to comply with their own job descriptions. Many have never been near an oil well.

A capacity needs assessment, funded by the Norway’s Oil for Development programme, last year confirmed this grim picture.

What is to be done? Wait for the Norwegians to stump up some cash for environmental capacity building?

An injection of Norwegian Kroner might help, but Uganda needs to wean itself off bazungu money and now would be a good time to start.

Partly thanks to its oil prospects, Uganda’s international credit rating is now good enough to borrow money by issuing treasury bonds—and the government is already doing so to make up for the donor funds lost in the wake of the OPM corruption scandal.

If it is okay to borrow against tomorrow’s oil wealth to keep today’s government programmes running, why not borrow to protect present and future generations from the risk of environmental negligence or accident?

Billions of dollars—all of which the oil companies will eventually recover from ‘cost oil’—will be spent extracting and transporting the oil. Is it not worth spending a few tens of millions to help ensure this is done safely?

A ‘green’ bond, designed to raise capital for investment in environmental protection, would be highly attractive to ‘ethical investors.’ This is a large and growing group of individual and institutional investors—including pension funds, trade unions and foundations—who actively look for investments that have positive social and environmental impacts while also providing a financial return.

Some economists would argue that Uganda is too poor to borrow for projects that do not bring a financial return. The opposite is true. Uganda cannot afford to neglect its environmental security, and the government should be taking a lead instead of riding on the coat-tails of the oil companies.

Nick Young is Editorial Consultant, Oil in Uganda
Local Content: A game of numbers
By Chris Musiime

Some Ugandans are not satisfied with local content clauses in the 2013 Petroleum laws, and want to see detailed, separate regulations. Here is a round-up of the situation in some other African countries.

GHANA:

Ghana passed the Petroleum Local Content and Local Participation Regulations, 2013 (L.1.2204), in November amidst stiff opposition from the oil companies operating in the country. The companies argued that they had outstanding agreements with the Ghana government which were now threatened by the new law.

The law requires new foreign exploration firms entering the Ghanaian market to have at least 10 percent local ownership, and targets having an impressive 70-80 percent locally-trained management and technical staff in the oil and gas sector by 2023.

The law is tilted strongly in favour of Ghanaian businesses, envisaging they can provide up to 50 percent of goods and services to the oil and gas industry in five years’ time; and up to 90 percent within 10 years.

In additional to giving first consideration to Ghanaian independent operators in the award of oil blocks, oil field licenses, oil lifting licenses and other contracts, the policy stipulates that during bid evaluation, where bids are otherwise equal, the bid containing the highest level of Ghanaian content shall be selected.

Operators in the oil and gas industry are also expected to use local goods and services as much as possible, even if they are up to 10 percent more expensive than imported ones.

The law further provides for the creation of a fund—the Oil and Gas Business Development and Local Content Fund—to support Ghanaians.

NIGERIA

The Nigerian Local Content Act was signed into law in April 2010 and is now being hailed as the country’s single most important piece of legislation since oil production started fifty years ago.

According to some government reports, as a direct result of this Act, 87 percent of all oil and gas contracts in the country were awarded to local contractors in 2012.

The Act defines a local Nigerian company as one in which at least 51 percent of its shares are held by Nigerians, and actively seeks to increase indigenous participation in the Nigerian oil and gas industry through utilization of local services and goods.

It now mandatory for operators in the industry to provide a viable succession plan whereby Nigerians will understudy particular expatriate positions for a maximum period of four years, at the end of which the positions shall become Nigerianised.

Operators are also required to procure legal and insurance services only from Nigerian registered firms, and maintain their bank accounts within Nigeria as well as retain a minimum of 10% of their total revenue accruing from Nigerian operations in country.

One of the most significant achievements of this Act has been the creation of the Nigerian Content Development Monitoring Board (NCDMB) whose mandate is to monitor the development of local content in the Industry.

Through this Board, all operators, project promoters, contractors and any other entity engaged in the Nigerian oil and gas industry are required to do all their fabrication and welding activities in country.

Already, some of the pipes used in the industry presently are made in Nigeria.

KENYA

With the first draft of Kenya’s petroleum laws expected in parliament soon, Kenya is yet to have a local content regulation in place.

But the issue of local content has already turned political with Turkana County MP James Lomenen on the spot, leading a group of about 400 locals to break into the perimeter of the Twiga 1 drilling camp in Turkana County.

The protesters accuse Tullow of discriminating against them by denying them jobs and other opportunities. Tullow maintains that more than 800 of the firm’s 1,400 employees are from the Turkana region.

Hon. Lomenen, whose company’s supply contract had been recently terminated by Tullow, reportedly led the protesters who forced their way into Twiga-1 camp causing damage worth more than $90,000.

But, according to government, local content is one of the salient issues that will be extensively discussed when the draft laws eventually make it to parliament. In the meantime, the Ministry of Energy has announced plans to recruit engineers and take them for “graduate level” training.

Kenya already has a National Oil Company as well as a crude oil refinery but the commencement of oil production will create many more jobs which, with targeted training, can be taken up by locals.