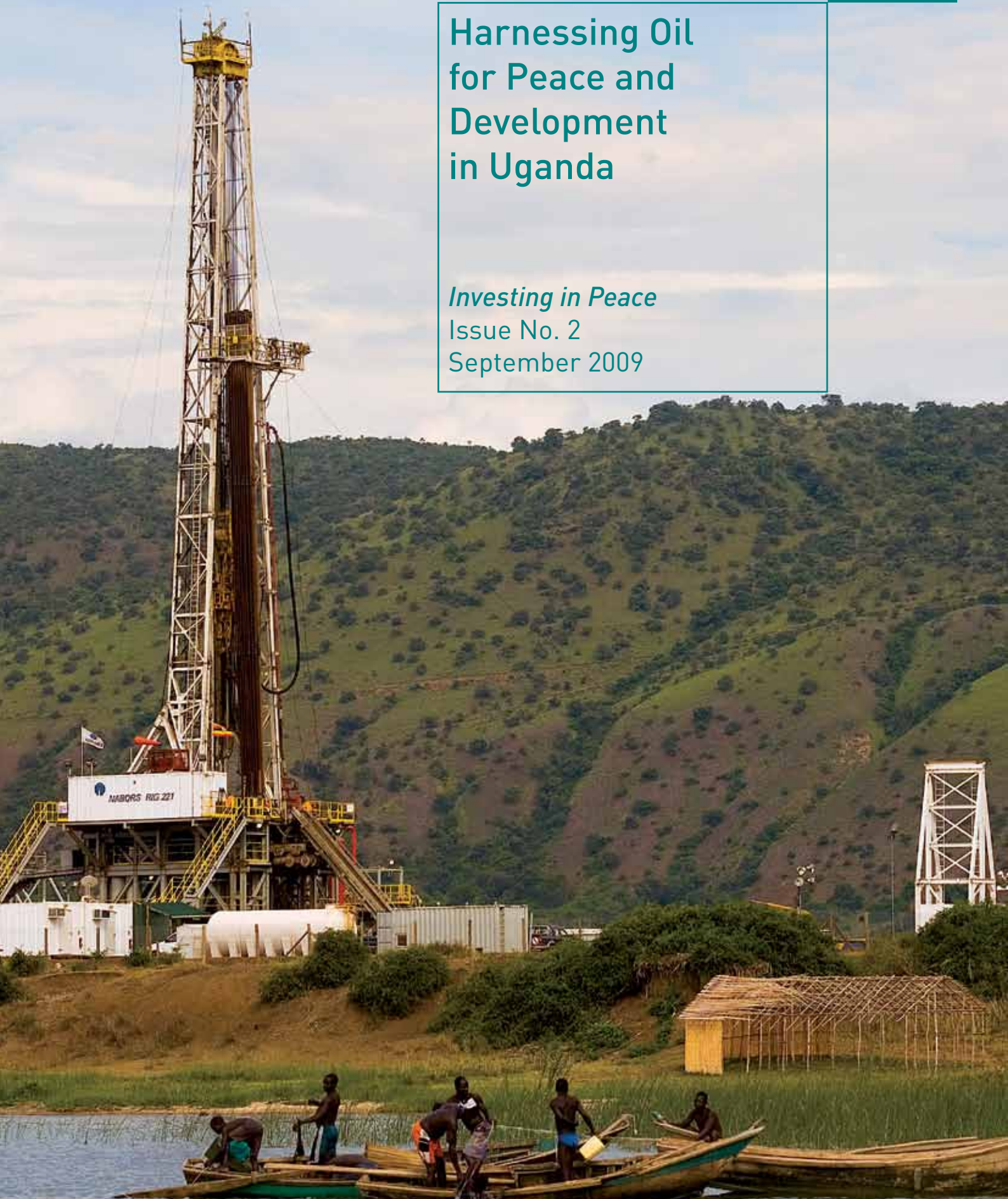


Harnessing Oil
for Peace and
Development
in Uganda

Investing in Peace
Issue No. 2
September 2009



About Investing in Peace

Welcome to Issue No. 2 of International Alert, Uganda's *Investing in Peace* briefing paper series. This series of reports targets policy-makers in government, development partners, civil society and the private sector, and explores the interplay between economic development and conflict in Uganda. Its purpose is to promote understanding of the political economy of Ugandan conflicts, and of the essential economic dimensions of peacebuilding. *Investing in Peace* Issue No. 1, 'Building a Peace Economy in Northern Uganda: Conflict-Sensitive Approaches to Recovery and Growth', was published in September 2008 and is available at http://www.international-alert.org/pdf/building_a_peace_economy_in_northern_uganda.pdf.

About International Alert

International Alert is an independent peacebuilding organisation that has worked for over 20 years to lay the foundations for lasting peace and security in communities affected by violent conflict. Our multifaceted approach focuses both in and across various regions; aiming to shape policies and practices that affect peacebuilding; and helping build skills and capacity through training.

Our field work is based in Africa, South Asia, the South Caucasus, Latin America, Lebanon and the Philippines. Our thematic projects work at local, regional and international levels, focusing on cross-cutting issues critical to building sustainable peace. These include business and economy, gender, governance, aid, security and justice. We are one of the world's leading peacebuilding NGOs with more than 120 staff based in London and our 11 field offices.

Countering conflict impacts of oil, mining and gas has been an important part of our work since 2000, with field programmes in São Tomé and Príncipe supporting parliamentarians, civil society and the media to actively mitigate conflict impacts; and work in Colombia focused on influencing companies as well as working with the government to implement the *Voluntary Principles on Security and Human Rights in the Extractive Sector*. Alert has also researched extractive industries and conflict issues in Angola, Azerbaijan, Ghana, Guatemala and Indonesia. At a policy level, Alert has pioneered the development of tools for oil, mining and gas companies to understand and mitigate conflict risk and impact; and contributed to important emerging standards and legal guidance in this area. See <http://www.international-alert.org/publications/index.php>.

For more information, please visit www.international-alert.org

The views and analysis reflected in this report are based on research findings conducted by International Alert and do not necessarily reflect the opinions or policies of the Swedish Embassy in Kampala, the Swedish International Development Agency (Sida), or the European Union.

© International Alert 2009

All rights reserved. No part of this publication may be reproduced, stored in a retrieval system or transmitted in any form or by any means, electronic, mechanical, photocopying, recording or otherwise, without full attribution.

Layout by D. R. Ink, London, www.d-r-ink.com.

Printing by The Print House, Kampala.

Front cover image: © Tullow Uganda Operations pty Ltd.

HARNESSING OIL FOR PEACE AND DEVELOPMENT IN UGANDA

Understanding National, Local and Cross-border Conflict
Risks Associated with Oil Discoveries in the Albertine Rift

Investing in Peace

Issue No. 2

September 2009

Contents

Executive summary	4
Acknowledgements	10
Acronyms	11
Map 1: Oil and gas exploration in the Albertine Rift, Uganda and DRC	13
Map 2: Ugandan oil exploration areas	14
Map 3: Districts of Uganda	15
1. Introduction	16
1.1 The “resource curse”	16
1.2 Oil and conflict	17
1.3 Purpose and outline of this report	19
2. Overview of Uganda’s oil sector – the story so far	22
2.1 Oil discoveries in the Ugandan Albertine Rift	22
2.1.1 Plans for production	22
2.2 Policy framework for managing oil in Uganda	24
2.2.1 Uganda’s new oil legislation	25
2.2.2 Framework for managing environmental impacts of oil	27
2.2.3 Transparency in Uganda’s oil sector to date	28
2.3 Lessons from international best practice	30
2.3.1 Revenue management	31
2.3.2 Saving for the future	32
2.3.3 Maximising benefits along the value chain	33
3. National-level conflict risks	37
3.1 Ugandan national identity and future sharing of oil wealth	37
3.1.1 Revenue distribution	39
3.1.2 The Balaalo herdsmen	41
3.2 Implications for future stability	43
4. Local-level conflict risks	45
4.1 Overview of current conflict dynamics in the Ugandan Albertine Rift	45
4.1.1 South-western sub-region	45
4.1.2 Bunyoro sub-region	47
4.1.3 West Nile sub-region	49
4.1.4 Amuru District/Acholi sub-region	51
4.2 Current perceptions on oil and conflict risks in oil-affected districts: Findings from qualitative survey	52
4.2.1 Political impacts	52
4.2.2 Land conflicts and oil	54
4.2.3 Economic impacts	57
4.2.4 Social impacts	60
4.2.5 Environmental impacts	61
4.2.6 Relationship between communities and companies	63
4.2.7 Summary of local-level conflict risks related to oil exploration and production	66

5. Cross-border conflict risks	68
5.1 Overview of the oil sector in eastern DRC	68
5.1.1 Oil prospecting in the Congolese “Tanganyika Rift”	68
5.1.2 Governance issues	70
5.1.3 Conflicts in the eastern DRC oil region	72
5.2 Uganda and the DRC – good neighbours?	74
5.2.1 Border tensions between Uganda and the DRC	74
5.2.2 Diplomatic initiatives	75
5.2.3 Community-level relations between Ugandans and Congolese	76
6. Countering conflict risks: Harnessing oil for peace and development in Uganda	78
6.1 Improving transparency about oil	78
6.1.1 Communication strategies	79
6.1.2 Transparency and the emerging legislative framework	81
6.1.3 Options for oil exploitation and production	82
6.2 Delivering quality leadership	82
6.2.1 The 2011 elections	82
6.2.2 Tackling corruption	82
6.2.3 Strengthening parliamentarians’ leadership role	82
6.2.4 Uganda leading the way to cross-border harmony	83
6.3 Promoting conflict resolution and national harmony	83
6.3.1 Re-asserting the “non-sectarian” agenda	83
6.3.2 Promoting solidarity among Ugandan and Congolese border communities	84
Annex 1 – Methodology for qualitative survey	85

Executive summary

This second issue of International Alert, Uganda's *Investing in Peace* briefing paper series reviews the current status of oil exploration, plans for production, and the policy environment for managing oil in Uganda. Its focus is on the potential for oil to trigger or exacerbate violent conflict in Uganda at different levels: national, local and cross-border with neighbouring Democratic Republic of Congo (DRC). Alert's research suggests that conflict risks associated with oil have to date been overlooked. Yet even at its current early stage of pre-production, oil has already contributed to an increase in tensions. Moreover there is every danger that this could intensify as the sector moves into production and as new blocks are explored in the future. In order to contribute to the broader effort of harnessing Uganda's oil for peace and development, this report promotes greater understanding of such conflict risks as an essential first step towards mitigation. It is Alert's view that with a "conflict-sensitive" approach to developing the industry, any future conflict related to oil can be avoided.

Uganda has been described by the oil industry press as Africa's 'hottest inland exploration frontier'.ⁱ Current estimates of the country's oil potential (around 1 to 1.5 billion barrels or bbl of recoverable reserves) would put Uganda among the foremost of African oil producers.ⁱⁱ Given the recent volatility of oil prices, it is difficult to estimate Uganda's likely revenues from oil. Yet whatever the oil price, if production goes ahead without hitches, the country's budget looks likely to receive a major windfall – potentially doubling or even tripling current export earnings.

Such a boost to national income offers Uganda a unique and exciting chance to alleviate poverty and create broad-based development and improved standards of living across the country. As a shared resource between Uganda and the DRC, oil also has the potential to signal a new era of cross-border cooperation in the wider Great Lakes Region. But international experience points to challenges which are often faced by resource-rich developing countries in translating mineral wealth into peace and prosperity. Much has been written about the "resource curse". Developing countries with inadequate institutional frameworks that become reliant on oil and minerals can see a deepening of a range of political, economic and social challenges, including a higher likelihood of civil war and social instability.ⁱⁱⁱ

Alert's analysis of oil-related conflict risks in Uganda presented in this report is based on extensive consultation with a wide range of individuals and institutions at a national level and in oil-affected districts over the course of the past year; as well as review of press reports and literature.

i 'Uganda: Testing threshold', *Energy Intelligence*, 31st October 2008.

ii Brian Glover, Tullow Oil country manager for Uganda, quoted in 'Tullow Oil: New drilling could put Uganda in top 50 producers', *AFP*, 20th February 2009.

iii See for instance P. Collier (1999). 'On the economic consequences of civil war', *Oxford University Papers* 51. Oxford: Oxford University Press; K. Ballentine (2005). 'Peace before profit: The challenges of governance' in K. Ballentine and H. Nitzschke (Eds.). *Profiting from peace: Managing the resource dimensions of armed conflict*. Boulder, US: Lynne Rienner Publishers, pp.447-484; P. Collier, V.L. Elliott, H. Hegre, A. Hoeffler, M. Reynal-Querol and N. Sambanis (2003). *Breaking the conflict trap: Civil war and development policy*. Washington DC: World Bank, Chs. 5-6; M. Humphreys (2005). 'Natural resources, conflict, and conflict resolution: Uncovering the mechanisms', *Journal of Conflict Resolution*, Vol. 49, No. 4, pp.508-537. Available at <http://jcr.sagepub.com/current.dtl>; H. Nitzschke (2003). *Transforming war economies: Challenges for peacemaking and peacebuilding*. Report of the 725th Wilton Park Conference, New York, US, 27-29th October 2003; R. Auty. 'Natural resources and civil strife: A two-stage process', *Geopolitics*, Vol. 9, No. 1, pp.29-49. Reprinted in: P. Le Billon (Ed.) (2004). *The geopolitics of resource wars: Resource dependence, governance and violence*. London: Frank Cass, pp.29-49; A. Ganesan and A. Vines (2004). *Engine of war: Resources, greed, and the predatory state*. Human Rights Watch World Report, Human Rights and Armed Conflict. Washington DC: HRW, pp.301-323. Available at www.hrw.org.

Summary of conflict risks

National level

There is a sense in which the timing of the discovery of oil in Uganda coincides with a falling away of confidence in government; and a bubbling to the surface of a number of other latent tensions. Such tensions may have been masked by the relative peace and economic progress of the past two decades, but there is a risk that the challenges that oil brings will interact with them to trigger conflict.

There is some evidence that despite the great advances towards a multi-ethnic national identity and pluralist political system under NRM leadership, momentum towards building a “non-sectarian” Uganda has waned, while the social legacies of Uganda’s turbulent past are far from entirely resolved. Current press reports and political commentary increasingly complain that the government favours members of Museveni’s own tribe – the Banyankole – as well as other “westerners”. Critics of government’s post-1993 decentralisation policy go further, identifying a deliberate strategy of “divide and rule”, whereby many of Uganda’s newer districts are created along ethnic lines as a means of appeasing a particular group of politicians or communities. The issue of ethnicity in politics has itself become an arena of political competition. Outside the national political process, ethnicity, politics and economy intersect to shape Ugandan society. Persistent tensions between different groups in Uganda lead not infrequently to low-intensity violent clashes among individuals or families, often triggered by issues such as access to land and other economic resources.

The arrival of oil threatens to exacerbate this fragmentation at a national level in different ways. Firstly, research reveals a strong current of cynicism among many people regarding government intentions and oil. Perceived lack of transparency to date in the sector leads such observers to conclude that secrecy is a deliberate strategy by government to maintain absolute control of the sector (even while others see in any shortcomings in information flow to date a simple lack of capacity given the newness of the resource). This tension points to a deepening in political turbulence in the months to come. Secondly, a lack of clarity about the issue of distribution of oil revenues as Uganda awaits the passing of its new legislative framework for oil emerges as a further potential source of competition between different localities and central government; as well as at a local level among groups and institutions. There is every possibility that, particularly as the 2011 election approaches, elite-led claims and counter-claims regarding different shares of revenue will escalate; and that in the absence of clear and proactive communication from government, such claims will influence more and more people. Thirdly, there are widespread perceptions and rumours circulating concerning the presence of herdsmen popularly known as the Balaalo in Uganda’s Albertine Rift. The report finds that the predominance of prejudice against the Balaalo should be seen as a dangerous manifestation of wider cynicism about government and potential for conflict at a national level, given the links that people draw (rightly or wrongly) between Balaalo occupation of oil-affected areas, and senior government and army officials.

Local level

Oil exploration is taking place along the entire western rift of the country, an area that embraces a multiplicity of traditional institutions, people of various ethnic groups, and local government authorities. Given the context of a fragmented national identity, and increasing mistrust of the political process at national level, the arrival of oil threatens to stir up tension along different lines. The report briefly sketches some of the conflict histories and current dynamics that exist in each of the affected oil-rich sub-regions: South-western; Bunyoro; West Nile; and Amuru District/the wider Acholi sub-region. Common conflict issues include access to land, often bound up with inter-ethnic tension; and porous borders with the DRC. Oil has already served to aggravate these tensions. The report also discusses findings from a qualitative survey in five of the districts (Amuru, Arua, Bundibugyo, Hoima and Kanungu) which explored local perceptions of how oil is already impacting conflict dynamics in different ways even at this early stage. The potential conflict risks identified were clustered as: political, land conflicts, economic, social and environmental, as well as

problems concerning communication between oil companies and communities (and issues related to the inter-relationship between Ugandans and Congolese living at the border, which are discussed separately). The survey raised “red flags” over likely future conflict impacts of oil as companies move from exploration to production in those areas. These are summarised in Table 1 below.

Table 1: Summary of local-level conflict risks related to oil exploration and production

Summary of conflict risks	
Political	<ul style="list-style-type: none"> (i) Tension over distribution of revenue and other benefits of oil – between national and district levels; and at the local level; (ii) Increased corruption as political leaders vie for control of change process, with some positioning themselves as “gatekeepers” to oil-related opportunities; and (iii) Undermining of administrative structures and accountability as oil is managed from “above”, leading to community disillusionment, and ultimately political upheaval.
Land	<ul style="list-style-type: none"> (i) Scramble for access to land, leading to rapid transition of customary or communal land into registered tenure (leasehold), and subsequent exclusion of communities from common lands and resources; (ii) Influx of immigrants, speculators and investors in land leads to different forms of resentment and tension between communities and new landowners; (iii) Fraudulent sale of land in areas where oil has been discovered further undermines confidence; and (iv) Fear of “land grab” by oil companies or government without proper compensation exacerbates tension.
Economic	<ul style="list-style-type: none"> (i) Disparities between different localities and households sharpened as some benefit more directly from oil developments, leading to resentment; (ii) Company recruitment processes and access to business opportunities perceived as unfair and corrupt, undermining confidence and breeding resentment of supposed beneficiary groups; (iii) Livelihood activities such as fishing disrupted, leading to range of negative impacts for affected groups; (iv) Delayed payments or compensation of either local service providers or landowners whose land is affected by building of infrastructure, breeds discontent; and (v) Location of any future oil refinery exacerbates different districts’ perceptions of their own place in national-level (de)prioritisation.
Social	<ul style="list-style-type: none"> (i) Migration to oil-affected localities heightens tribal and cultural consciousness negatively to the incoming migrants, especially where newcomers are seen to benefit from opportunities at expense of local people.
Environmental	<ul style="list-style-type: none"> (i) Concern over environmental impacts coupled with unclear channels of redress leads to tension; and (ii) District authorities responsible for environmental protection are undermined by “top-down” management of oil industry, eroding public confidence in administrative system.
Challenges in company/community communication	<ul style="list-style-type: none"> (i) Lack of information about company activities breeds suspicion and rumour across a range of impact areas; (ii) Companies’ closer relationship to central government and failure to fully and consistently consult with local officials undermines local government; (iii) Companies’ selection of individual “gatekeepers” at local level fuels nepotism and corruption; and (iv) Company disbursement of financial support to traditional institutions in the absence of a clear framework for such a relationship risks increasing tension within such institutions; and between such institutions and the wider community.

Cross-border

The report focuses on the relationship between Uganda and the DRC. The two countries share Lake Albert according to colonial-era state boundaries, and full-scale exploitation of the offshore oil known to exist in the lake will ultimately require their political and technical cooperation. The oil industry in DRC – which is highly strategic to government – is characterised by a number of problems. Controversies and political intrigue concerning oil exploration and company licences in eastern DRC sound a warning note. The likely trajectory of new oil discoveries is further complicated by the series of violent conflicts that has plagued the Ituri region since the 1990s. Enmity continues among the main communities, more extreme and closer to the surface than anything found in Uganda. The possibility of conflict over the Albertine oil resource is seen to be very real by citizens, adding a new source of competition to an already volatile situation. Immediate aspects relate to expectations about how the possible benefits from the industry will be shared; as well as control of lakeside landing points. Civil society representatives outline a number of recommendations, including calling for the DRC government to draw up an oil law and make it accessible to citizens; higher levels of consultation of affected communities who complain about a lack of transparency both by public officials and companies; and vigilance from the international community to ensure that competition for access to oil in the region does not stir up a new phase of conflict.

The relationship between Uganda and the DRC has been troubled throughout the period of DRC's wars. Uganda's military involvement in the DRC during the 1990s, and evidence that senior Ugandan military personnel were complicit in the trafficking of the DRC's mineral wealth – as well as Uganda's implication as backer of some of the country's most brutal militia active during the period – has left a legacy of mistrust between the two countries. Displacement of the LRA's theatre of conflict into the DRC has done nothing to ameliorate this tension. As a direct result of new oil activity, the boundary between the two countries became the subject of a dispute over Rukwanzi Island; with a subsequent incident in Aru/Arua. Agreements made under the 2008 Arusha Pact signed by the two countries to resolve the tension have not yet fully been implemented, though relations have greatly improved.

The relationship between communities living on both sides of the border has historically been characterised by trade, fishing activities, shared ethnicity and migration in both directions. Throughout the region, communities have kin on the other side of the border and there are many instances of intermarriage. Congolese refugees from the recent wars in Ituri have settled in Uganda and are an accepted part of the local communities there. Despite these ties, there is evidence of low-level mistrust between border communities across the rift area – several flashpoints are flagged in the report. Across the whole oil-rich area in Uganda, there are perceptions that Congolese living in Uganda have disproportionately benefited from job opportunities with the oil companies; and are among the various “foreign” groups seen by local people to be speculatively purchasing land with a view to compensation or future profit from increased value. Ugandans also repeatedly complain of mistreatment by Congolese officials when visiting the DRC side of the border.

Countering conflict risks: Strategies for harnessing oil for peace and development in Uganda

The report proposes a set of strategies for government, parliamentarians, other local leaders, development partners, companies, civil society and the media to put Uganda on the right path for managing its oil, in particular through ensuring oil does not exacerbate conflict. These strategies are clustered under three broad themes: (i) improving transparency about oil; (ii) delivering quality leadership; and (iii) promoting conflict resolution and national harmony.

Improving transparency about oil

The question of transparency about oil as practised by policy-makers and companies goes to the core of the potential for oil to exacerbate conflict. Lack of information has fed suspicion and mistrust, and created divisions. While it may have as its cause limitations to both government and company capacity related to the very newness of the sector, it can all too easily lead to an escalation of conflict given other circumstances and trends. There is a clear and urgent need for greater public availability of relevant information. Improved understanding will restore citizens' confidence; enable more realistic expectations; and help citizens themselves be empowered through gaining the insights and understanding that they need to prepare for the future. Such empowerment is essential as a conflict prevention mechanism, helping people to learn to ignore false rumours, and to play their own role in ensuring positive outcomes.

Recommendations

- Government and companies should improve information flow about oil and support civic education at all levels;
- Government should ensure that concrete strategies for transparency, in line with international best practice on “combating the resource curse”, are enshrined in the new legislative framework for oil. This should include transparency in new contracts and licences; institutional mechanisms for revenue collection and management; management of any Ugandan oil fund to be set up; and clarity on the respective roles and responsibilities of different oversight agencies;
- Government and companies should actively implement the Extractive Industry Transparency Initiative (EITI), including through ensuring civil society participation;
- Government and parliamentarians should reach a timely conclusion with the oil legislative drafting process in order to avoid any ongoing “policy gap”, and related uncertainty and tension;
- Government, with support of parliamentarians and the involvement of civil society, should implement a nationwide communication campaign on the draft oil laws, ensuring effective public consultation;
- The capacity and independence of government agencies critical to successful management and improved transparency of oil should be strengthened, particularly that of the National Environmental Management Agency (NEMA), the Petroleum, Exploration and Production Department (PEPD), the Ministry of Energy (including through creation of a functioning information officer and a petroleum database), and of local government officials in oil-affected districts;
- The capacity of parliamentarians, civil society and the media should also be strengthened. International development partners have a particular role to play in providing financial and technical assistance to such sectors in order to augment their capacity to promote positive outcomes from oil; and
- Initiatives should be implemented by government and companies to ensure wide public consultation on specific issues that arise, such as the current oil production feasibility studies; any new licences; as well as any upcoming Environmental Impact Assessments (EIAs).

Delivering quality leadership

The arrival of oil provides a wake-up call to political leaders at all levels, reminding them that commitment to the public good and the long-term developmental interests of Uganda is essential. Oil has raised the stakes of political competition, and the potential for an escalation of conflict and subsequent reversal of development gains in the country has to be taken seriously. Uganda's leaders – whether in politics, traditional institutions, or those with influence in civil society and the media, need to adopt a “conflict-sensitive” approach to handling the issue – avoiding exploiting citizens' hopes and fears about oil for their own purposes.

Recommendations

- Leaders from within and outside politics should rise to the challenge presented by oil, emphasising the overall national developmental interests of Uganda over their own personal or political fortunes or those of narrow constituencies;
- Government, parliamentarians and civil society partners should take all necessary steps to ensure a sound electoral process in 2011, with appropriate support from development partners;
- All stakeholders should work hard to tackle corruption, including within local administrations in the oil-affected areas, right up to higher levels of government – both by improving transparency in contracting and distributing other benefits related to oil – and by ensuring accountability where cases of transgression arise;
- Parliamentarians should create a cross-party working group on oil with support from civil society and international development partners and including both Natural Resource Committee (NRC) and Public Accounts Committee (PAC) members. They should proactively engage with other MPs from oil-affected districts, whilst at the same time developing their own leadership and expertise related to oil; and
- Government should continue its leadership in ensuring a harmonious relationship with the DRC, including through ongoing diplomatic initiatives and careful handling of the Lord's Resistance Army (LRA) conflict.

Promoting conflict resolution and national harmony

Oil has the potential to harden the tendency for Ugandan politics to play out along ethnic lines. Given the experience of other countries where oil has exacerbated such challenges, a special effort is required by all stakeholders to reverse this trend. The challenges are both profound and complex, but nevertheless go to the heart of ensuring oil contributes to peace and development in Uganda.

Recommendations

- All stakeholders should work to counter the increase in “ethno-politics” in national political discourse and at a local level, including by curtailing the strategy of creating new districts; and addressing perceived bias in government appointments towards westerners;
- Oil companies should pay particular attention to ethnic divisions in the localities where they are operating and the interaction their own operations may have with these, however inadvertently;
- Conflict-resolution initiatives which address specific local land conflicts, including those involving the Balaalo, should be scaled up and supported;
- Initiatives to promote national harmony more broadly should also be scaled up and supported; and
- Cross-border community-level solidarity initiatives between Congolese and Ugandan citizens should be supported.

Acknowledgements

The overall author of this report is Jessica Banfield, country manager, International Alert, Uganda. Robinah Kajwenge, project officer at International Alert, Uganda researched and wrote conflict context background pieces for each of the oil-affected sub-regions in Uganda that are included as part of Section 4, and her ongoing commitment throughout has been essential to bringing *Investing in Peace* Issue No. 2 from concept to publication. Different sections are based on research papers commissioned by Alert over the past 18 months, in addition to Alert's own research. These include a qualitative field study that is referred to particularly in Section 4, and which was led during March–June 2009 by Kampala-based consultancy firm Associates Research, for which Alert would like to thank in particular Margaret Rugadya and Herbert Kamusiime. Material providing an overview of Uganda's oil industry and policy environment included in the report draws substantively on work undertaken on behalf of International Alert by Dr Sarah Wykes, an international consultant with a wide range of experience on natural resource management issues in Africa, whose input and guidance has been extremely valuable. Sections related to the Democratic Republic of Congo (DRC) are based on Alert's own work in the DRC as well as input from Dominic Johnson, advisor to the Goma-based Pole Institute, and Alfred Bujju, head of the Justice and Peace Commission in the Bunia Diocese. Alert would like to thank these individuals as well as other stakeholders consulted within the DRC for their insights.

The report has also benefited from peer review by a number of experts both internal and external to Alert, which has greatly improved the overall drafting process. Externally, we would like to thank Dr Chris Dolan, director, Refugee Law Project; Dickens Kamugisha, director, AFIEGO; Sarah Prinsloo, World Conservation Society Uganda; Professor Edward Rugumayo, Kabarole District; and both Dominic Johnson and Dr Sarah Wykes, independent consultants that were part of the research team for this report. Within Alert, the editorial input of Zeru Abukha, Judy El-Bushra, Xav Hagen, Diana Klein, Chandani Thapa and Phil Vernon has been very helpful.

Alert has been involved in trying to understand the conflict risks associated with oil in Uganda from early 2008 up to the time of publication of this report, and has now embarked on a related project working with a range of stakeholders to help counter such risks. As such, the analysis in this report draws on a large number of inputs and conversations with others across a spectrum from senior government officials and MPs, to local government representatives, oil company officials, cultural and civic leaders, and local people themselves in affected districts – and we are very grateful for all of these. They are too many to name here, but we look forward to ongoing collaboration in promoting positive outcomes from oil in Uganda and appreciate all the input and discussion to date.

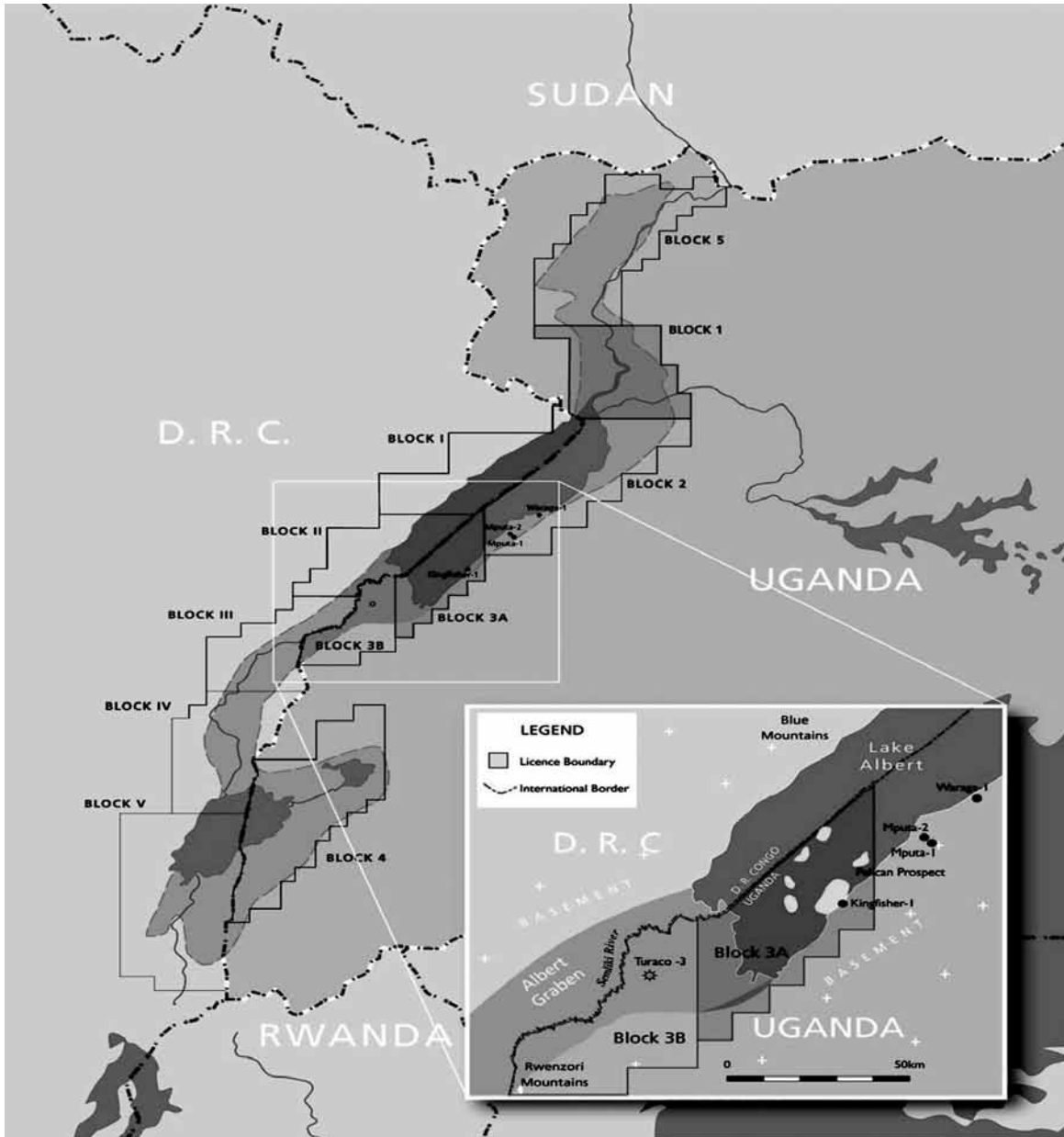
Finally, Alert would like to thank its donors for this work. First and foremost, our appreciation goes to the Swedish International Development Cooperation Agency (Sida), whose support to Alert in setting up its operations in Uganda as part of the Aligning the Economy with Peace in Uganda project, has been invaluable. A core part of Sida support to Alert includes financing the briefing paper series *Investing in Peace*, has been invaluable. Additional financial support towards this publication has also come from the European Commission's Initiative for Peacebuilding (IfP) project. IfP aims to develop and harness international knowledge and expertise in the field of conflict prevention and peacebuilding to ensure that all stakeholders, including EU institutions, can access strong independent analysis in order to facilitate better informed and more evidence-based policy decisions.

Acronyms

ACODE	Advocates Coalition for Development and Environment
AFIEGO	Africa Institute for Energy Governance
ADEV	Actions pour le Developpement et la Vie
ADF	Allied Democratic Forces
bbl	Barrels
BMU	Beach Management Unit
bpd	Barrels per day
CENCO	Congo National Episcopal Conference
CEO	Chief Executive Officer
CMI	Chieftaincy of Military Intelligence
Cocodem	Comité de Concertation et de Développement de Moanda
CSCO	Civil Society Coalition for Oil in Uganda
CSOPNU	Civil Society Organisations for Peace in Northern Uganda
CSO	Civil Society Organisation
DISO	District Internal Security Officers
DRC	Democratic Republic of Congo
EA	Exploration Area
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
EPS	Early Production Scheme
ESIA	Environmental and Social Impact Assessment
ESO	External Security Organ
FARDC	Forces Armées de la République Démocratique du Congo
FDC	Forum for Democratic Change
FGD	Focus Group Discussion
FUNA	Former Uganda National Army
GDP	Gross Domestic Product
GoU	Government of Uganda
IDP	Internally Displaced Person
IGC	Institut Géographique du Congo
IMF	International Monetary Fund
JPA	Joint Production Agreement
KII	Key Informant Interview
LC	Local Council
LRA	Lord's Resistance Army
NALU	National Army of Liberation of Uganda
NAPE	National Association of Professional Environmentalists
NEMA	National Environmental Management Agency
NGO	Non-Governmental Organisation
NOGP	National Oil and Gas Policy
NRC	Natural Resource Committee
NRM	National Resistance Movement
OECD	Organisation for Economic Co-operation and Development
PAC	Public Accounts Committee
PEPD	Petroleum Exploration and Production Department
PRDP	Peace, Recovery and Development Plan for Northern Uganda
PSA	Production Sharing Agreement
PWYP	Publish What You Pay

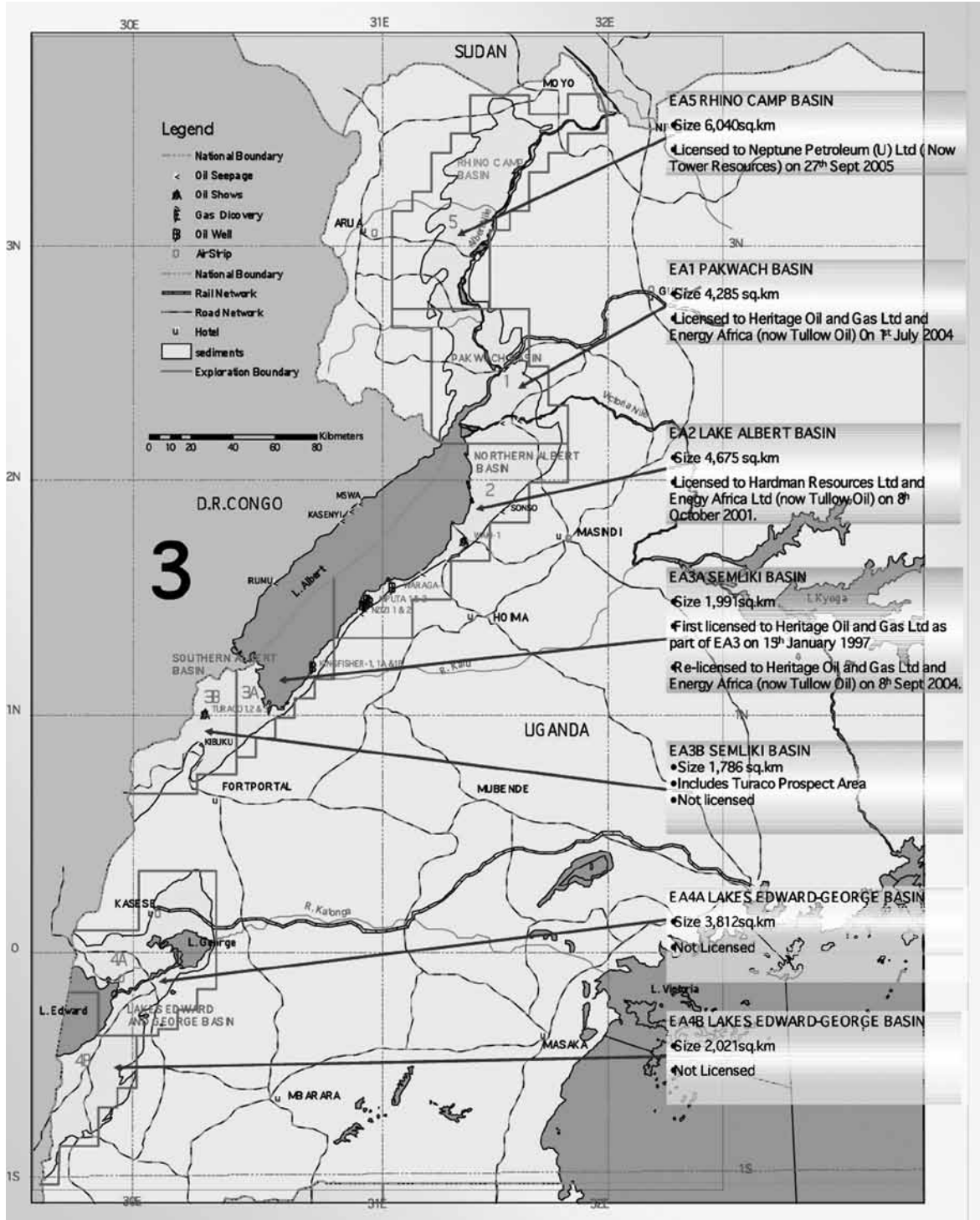
RDC	Resident District Commissioner
RISO	Regional and Internal Security Organ
SEA	Strategic Environmental Assessment
UJCC	Uganda Joint Christian Council
UNLA	Uganda National Liberation Army
UN OCHA	United Nations Office for the Coordination of Humanitarian Affairs
UNRF	Uganda National Rescue Front
UPDF	Uganda People's Defence Forces
WCS	Wildlife Conservation Society
WNBF	West Nile Bank Front
WWF	World Wildlife Fund for Nature

Map 1: Oil and gas exploration in the Albertine Rift, Uganda and DRC



Source: Government of Uganda, Petroleum Exploration and Production Department, Ministry of Energy, 2008.

Map 2: Ugandan oil exploration areas



Source: Government of Uganda, Petroleum Exploration and Production Department, Ministry of Energy, 2007.

Map 3: Districts of Uganda



Source: UN Office for the Coordination of Humanitarian Affairs (OCHA), 2008.

1. Introduction

Uganda has been described by the oil industry press as Africa's 'hottest inland exploration frontier'.¹ If current estimates of the country's oil potential from exploration to date are correct (around 1 to 1.5 billion barrels or bbl of recoverable reserves), this would put Uganda among the foremost African oil producers, or 'among the world's top 50 producers'.² By comparison, oil-rich Equatorial Guinea, dubbed the 'Kuwait of Africa', had proven reserves of 1.1 billion bbl in 2007.³

Given the recent volatility of oil prices, which fluctuated between a low of US\$40 a barrel and a high of US\$150 in 2008, it is difficult to estimate Uganda's likely revenues from oil with any certainty. Yet whatever the oil price, if production goes ahead without hitches, the country's budget looks likely to receive a major windfall given that Uganda's current export earnings stand at US\$2 billion – potentially doubling or even tripling that figure.

Translating such a substantial boost to national wealth into peace and prosperity for Uganda's citizens may not be straightforward however, if the experience of other resource-rich developing countries is anything to go by.

1.1 The “resource curse”

Over 50 countries worldwide are defined as natural resource-rich. In sub-Saharan Africa, according to the World Bank, nearly half of the population lives in oil and mineral-rich countries. These countries account for about 70 percent of Africa's Gross Domestic Product (GDP) and receive most of the foreign direct investment (FDI) into the continent. Yet most of them score extremely poorly on human development indicators.

In fact, most resource-rich developing countries are characterised by what is called in academic literature the “paradox of plenty” or the “resource curse”.⁴ Oil and mineral-dependent countries are exceptionally vulnerable to “boom and bust” cycles. Oil is a finite or non-renewable resource, bringing large revenue inflows to a country but over a limited time period; at the same time it is subject to extreme price volatility. This means revenues are neither stable nor predictable, and makes budgetary forecasting and provision difficult. Oil can cause what is commonly referred to as “Dutch Disease”, that is currency appreciation and inflationary movement which weakens the non-oil sectors of the economy, rendering non-oil exports in particular less competitive (see Box 1).

1 'Uganda: Testing threshold', *Energy Intelligence*, 31st October 2008.

2 Brian Glover, Tullow Oil country manager for Uganda, quoted in 'Tullow Oil: New drilling could put Uganda in top 50 producers', *AFP*, 20th February 2009.

3 'Equatorial Guinea Energy Profile', Energy Information Administration (EIA) website. Available at http://tonto.eia.doe.gov/country/country_energy_data.cfm?fips=EK.

4 International Monetary Fund (June 2005). *Guide on resource revenue transparency*, p.4. On the “resource curse”, along with the IMF Guide, see for instance A. Gelb (1988). *Oil windfalls: Blessing or curse?* Washington DC: World Bank; R. M. Auty (1993). *Sustaining development in mineral economies: The resource curse thesis*. London and New York: Routledge; T. L. Karl (1997). *The paradox of plenty: Oil booms and petro-states*. California: University of California Press; I. Gary and T. L. Karl (2003). *Bottom of the barrel: Africa's oil boom and the poor*. Baltimore: Catholic Relief Services; M. Humphreys, J. D. Sachs, and J. E. Stiglitz (Eds.) (2007). *Escaping the resource curse*. New York: Columbia University Press; P. Collier (2007). *The bottom billion: Why the poorest countries are failing and what can be done about it*. Oxford: Oxford University Press; Oxfam America and Isodec (2009). *Ghana's big test: Oil's challenge to democratic development*. Boston: Oxfam America; and E. M. Alba (March 2009). 'Extractive Industries Value Chain: A comprehensive integrated approach to developing extractive industries' in *Extractive Industries for Development Series*, No. 3, *Africa Region Working Paper Series*, No. 125. Washington DC: World Bank. See also www.publishwhatyoupay.org; www.eitransparency.org; and www.revenuewatch.org.

Box 1. Defining the Dutch Disease

'The Dutch Disease occurs when oil windfalls push up the real exchange rate of a country's currency, rendering most other exports non-competitive. At the same time, persistent Dutch Disease provokes a rapid, even distorted growth of services, transportation, and construction, while simultaneously discouraging some industrialization and agriculture. Agricultural exports – a labour-intensive activity particularly important to the poor – are adversely affected by economic dynamics set off by the exploitation of petroleum. The languishing of the agriculture and manufacturing sectors of oil countries not only makes them more dependent on petroleum, thereby exacerbating other problems of dependency, but it can also lead to a permanent loss of competitiveness. Meanwhile, the oil sector cannot make up the shortfall'.

Source: I. Gary and T. L. Karl (2003). *Bottom of the barrel: Africa's oil boom and the poor*. Baltimore: Catholic Relief Services, p.22.

Other economic, fiscal and political impacts of sudden oil wealth are: increased likelihood of governments engaging in unplanned public spending sprees, leading to a loss of fiscal control; strengthening or creation of patronage systems which can undermine accountability and stability; and an increase in foreign debt, with some countries taking out expensive oil-backed loans. Overall, oil booms are associated with a decrease in the transparency of state structures, as “easy” (unearned) money renders governments less or non-reliant on earned income (for example from taxation), thus weakening state institutions and generally undermining government accountability and ultimately development indicators.⁵

1.2 Oil and conflict

*'Politically [managing the resource curse] is very difficult because there are a lot of pressures that mean that at best the assets are wasted, and at worst a fight for control of the honeypot destroys the country'.*⁶

Developing countries with inadequate institutional frameworks that become reliant on oil and minerals can see a deepening of a range of political, economic and social challenges, including a higher likelihood of civil war and social instability.⁷ In part, this can be due to a disconnect between the high societal expectations that accompany oil wealth and subsequent poor economic performance which can be “politically explosive” – as citizens more often than not see a small elite become disproportionately rich while the rest of society descends further into poverty.⁸ Petro-states are in addition often highly militarised and volatile as a result of governments' struggle to maintain control and compete with other groups for power. While conflict related to oil will often have its roots in pre-existing tensions in society, the influx of oil wealth will serve to raise the stakes and intensity, whether at the community or national level (see Table 1).

5 Interestingly, similar effects are increasingly acknowledged to arise from large-scale donor aid programmes in countries such as Uganda, where a large portion of the domestic budget comes from international development. 'Can aid do more harm than good', *BBC News*, 1st February 2006; 'Should aid agencies be more open about corruption?', *Reuters AlertNet*, 19th November 2007.

6 Paul Collier's recent interview on Uganda, 'Preparing for Africa's boom', *The Guardian*, 25th May 2009.

7 See for instance P. Collier (1999). 'On the economic consequences of civil war', *Oxford University Papers* 51. Oxford: Oxford University Press; K. Ballentine (2005). 'Peace before profit: The challenges of governance' in K. Ballentine and H. Nitzschke (Eds.). *Profiting from peace: Managing the resource dimensions of armed conflict*. Boulder, US: Lynne Rienner Publishers, pp.447-484; P. Collier, V.L. Elliott, H. Hegre, A. Hoeffler, M. Reynal-Querol and N. Sambanis (2003). *Breaking the conflict trap: Civil war and development policy*. Washington DC: World Bank, Chs. 5-6; M. Humphreys (2005). 'Natural resources, conflict, and conflict resolution: Uncovering the mechanisms', *Journal of Conflict Resolution*, Vol. 49, No. 4, pp.508-537. Available at <http://jcr.sagepub.com/current.dtl>; H. Nitzschke (2003). *Transforming war economies: Challenges for peacemaking and peacebuilding*. Report of the 725th Wilton Park Conference, New York, US, 27-29th October 2003; R. Auty (2004). 'Natural resources and civil strife: A two-stage process', *Geopolitics*, Vol. 9, No. 1, pp.29-49. Reprinted in: P. Le Billon (Ed.). *The geopolitics of resource wars: Resource dependence, governance and violence*. London: Frank Cass, pp.29-49; A. Ganesan and A. Vines (2004). *Engine of war: Resources, greed, and the predatory state*. Human Rights Watch World Report, Human Rights and Armed Conflict, Washington DC: HRW, pp.301-323. Available at www.hrw.org.

8 I. Gary and T. L. Karl (2003). Op. cit.

Table 1. Links between oil and conflict

Cross-border/international level	Powerful states deploy aggressive foreign policy to secure access to oil supply.
	Pipeline routes influence regional geopolitics.
National level	Governments use oil revenue to purchase weapons in order to maintain supremacy either with neighbouring states or at home.
	Corrupt management of oil wealth exacerbates competition among political elites for control of the state, to the point of violence.
Local level	Oil-rich regions feel they are not receiving their fair share of oil profits despite shouldering environmental and other costs associated with oil production, leading to rebellion targeted at either or both companies and government.
	Competition between and within local communities over access to benefits of oil as offered by companies or government becomes violent.

Nigeria is often given as the classic example of what can go wrong in the management of oil wealth, leading to conflict (see Box 2).

Box 2. Descent into oil conflict in Nigeria

Nigeria, sub-Saharan Africa's largest oil producer, is a classic illustration of the "paradox of plenty". Flush with proven reserves (approximately 30 billion bbl) and having earned a staggering US\$340 billion over the past 40 years, Nigeria's production ranked only behind Saudi Arabia, Venezuela, Iran and the United Arab Emirates – until recent violence created disturbances and disruptions leading to a significant drop in output. Oil dependence is overwhelming: petrodollars account for 83 percent of federal government revenue, more than 95 percent of export earnings and approximately 40 percent of Gross Domestic Product (GDP). These oil riches have done little to change the situation of the poor. More than 70 percent live on less than a dollar a day, 43 percent lack sanitation and clean water, and infant mortality is among the highest in the world.

So overwhelming is mismanagement and rent-seeking that Nigeria has unfortunately become virtually synonymous with corruption. According to the NGO Human Rights Watch, 'little of the money paid by the federal government to state and local governments from the oil revenue is actually spent on genuine development projects'. An estimated US\$4 billion of government funds – some 90 percent of which came from oil – is reported to have been stolen by General Sani Abacha during his dictatorship in the 1990s.

Nigeria exhibits other classic oil-related patterns. With the emergence of the oil sector in the late 1960s, the Dutch Disease set in: an overvalued exchange rate seriously harmed the agricultural and manufacturing sectors, which remain inefficient and weak. High vulnerability to booms and busts have made it difficult to plan or project government spending levels. Various development schemes over the past decades have been launched and then abandoned because of declines in oil revenues. The result has been painful: the percentage of people living in poverty increased from 28 percent in 1980 to 66 percent in 1996, according to Nigeria's Federal Office of Statistics. Per capita income has fallen from US\$800 in 1980 to US\$300 today.

Violence in the Niger Delta

This deterioration has been accompanied by political decay, a rise in oil-related human rights violations, and violence, most notably in the Niger Delta where most oil is produced. The national government has been highly unstable, fluctuating between military and civilian rule – though more recent government efforts to address the problems are underway. There is a cycle of activism, militancy and repression linked to oil, as spills and other environmental problems result in the loss of livelihoods for many residents. The international outcry at the hanging of Ken Saro-Wiwa and other Ogoni activists protesting the despoiling of their Niger Delta lands and other events have impacted the industry's bottom line. Some estimates suggest that militancy and protests have cut onshore oil production by a third.

Oil companies have become a target for communities that see little benefit from monies paid to federal, state and local governments. They complain of serious environmental damage and human rights violations and hold multinational oil companies partly responsible. Rising attacks, coupled with organised criminal gangs engaging in “bunkering”, or oil theft, loading oil barrels on cargo ships and reportedly costing oil companies at least 20 percent of their production, escalated during the early 2000s to a point that the region is now in the midst of full-scale civil conflict and one of the most dangerous places in the world. 2008 was the Delta's most dangerous year on record with 1,000 people killed and 300 hostages taken in the first nine months.

Source: I. Gary and T. L. Karl (2003). Op. cit.; ‘Niger Delta: Violence creates “human security” crisis’, *IRIN*, 13th May 2009.

1.3 Purpose and outline of this report

Despite the negative impacts that can arise from new-found oil wealth in developing countries, the resource curse is by no means inevitable. A number of countries – including Botswana and Norway – have managed to avoid the problem. Combating the resource curse and minimising conflict risks associated with oil is an important part of international development agendas and there are numerous institutions and resources for governments to turn to for advice on how to do just this. Efforts have also been made to promote higher levels of oil company performance in understanding and mitigating the impacts of their own operations and investments on conflict dynamics (see Box 3).

Box 3. Oil companies and conflict

Oil, mining and gas companies often invest in conflict-prone societies, the nature of their business taking them to where the resources are to be found. Most companies have no interest in exacerbating instability or violence, or otherwise becoming caught up in it. Experience shows, however, that all too often they lack the skills and experience to avoid doing so.

Despite advances in political risk methodologies and environmental and social impact assessment (ESIA) standards, and the wider corporate responsibility sphere, fundamental gaps in company practice remain. These include the capacity of companies to understand existing or potential conflict dynamics in the areas where they operate fully; or to grasp the spectrum of influence that a company's investment may have on such conflict, directly, indirectly and at varying levels.

In 2005, International Alert developed and published *Conflict-sensitive business practices: Guidance for extractive industries*, to guide companies doing business in societies at risk of conflict, on how better to understand this two-way relationship between their own investment and tension in society at large. The publication is available at http://www.international-alert.org/pdf/conflict_sensitive_business_practice_section_1.pdf.

In parallel, international policy initiatives to tighten accountability of companies as they interact with conflict have also emerged, including the *Voluntary Principles on Security and Human Rights* which guides companies on appropriate security arrangements; and *Red Flags on Corporate Liability in Conflict Zones*, which highlights the legal risks companies face if they do not manage their interaction with conflict well.⁹

Uganda has in fact already made good use of such international experience, as will be explored in further detail in this report. However Alert's research suggests that government, development partners, companies and other key stakeholders such as parliamentarians and civil society have to date placed limited emphasis on assessing and mitigating specifically the *conflict risks* that might be associated with Uganda's oil finds at different levels. This publication aims to prompt greater awareness of these very real and demonstrable risks. Its purpose is to support wider efforts to ensure that oil wealth in Uganda contributes to ongoing peace within the country and at its borders, as well as substantial development gains for all Ugandans.

Following this Introduction, Section 2 offers a brief overview of Uganda's oil sector to date, both with regards to the oil deposits themselves and the evolving policy framework for their governance. Section 3 presents the findings of research International Alert has been engaged in over the past year, and analyses how oil discoveries might be affecting underlying conflict dynamics in Uganda at a national level. The identification of national-level conflict issues is based on a review of relevant literature as well as interviews with a wide range of stakeholders and opinion leaders from government, civil society, parliament, companies, industry experts and development partners during the course of 2008–09, as well as a more in-depth study undertaken during March 2009.

Section 4 focuses on conflict dynamics associated with oil at a local level within Uganda, in the four geographic areas affected to date by oil exploration: South-western, Bunyoro and West Nile; as well as Amuru District and indirectly the Acholi sub-region. The identification of local-level conflict issues is based on a preliminary desk review of conflict issues and a field study conducted by Alert; as well as a more in-depth qualitative field survey held in five focus districts from April–June 2009. This study, which consisted of Focus Group Discussions (FGDs) held with community representatives of different socio-economic groups at sub-county level; and Key Informant Interviews (KIIs) with district and other leaders at district level in Amuru, Arua, Bundibugyo, Hoima and Kanungu, was undertaken by the Ugandan consultancy firm Associates Research, and offers a glimpse into conflicts that may be arising as a result of oil discovery, as seen through the eyes of local-level stakeholders (both community-level and local leadership).

Section 5 reviews Uganda's cross-border relations with other states in the region as these may have been affected by oil, focusing on Uganda's relationship with the Democratic Republic of Congo (DRC).¹⁰ The review of cross-border conflict dynamics is based on monitoring of press reports, interviews with Ugandan government officials, as well as inputs from consultants based in the DRC. It also draws on material from the Associates Research survey insofar as this highlighted relevant cross-border issues.

Overall, this publication's analysis of potential conflict impacts associated with oil in Uganda is offered in the belief that only by understanding such risks and remaining vigilant to them will Uganda's policy-makers, oil companies and leaders at the local level avoid the pitfalls made

⁹ See International Alert (2005). *Conflict-sensitive business practice: Guidance for extractive industries*. London: Alert; International Alert and Fafo (2008). *Red flags on corporate liability in conflict zones*. London: Alert; and www.voluntaryprinciples.org. See also UN Global Compact (2005). *Enabling peace economies: Public policy for conflict-sensitive business practice*. New York: UN Global Compact; OECD Investment Committee (2006). *Risk management tool for investors in weak governance zones*. Paris: OECD; IFC (2005). *Safeguard standards 2006*. Washington DC: World Bank.

¹⁰ There are in fact wider inter-state implications of oil exploitation in the Albertine Rift, given the fact that nine countries depend on the Nile – any pollution effects of the industry are therefore likely to be a source of tension more broadly, for example. It is, however, beyond the scope of this report to assess these broader impacts.

elsewhere in countries where oil has directly exacerbated conflict dynamics. Section 6 draws conclusions from the report overall and offers recommendations to government, companies, development partners, civil society and parliamentarians on how to mitigate and manage the conflict risks identified in order to exploit oil for peace and development in Uganda.

2. Overview of Uganda's oil sector – the story so far

2.1 Oil discoveries in the Ugandan Albertine Rift

Prospecting for oil in Uganda's Albertine Rift started in earnest in 2003–04, and the government has currently licensed five exploration areas (EAs) out of a total of nine, both onshore and offshore in Lake Albert (see Map 2). The key blocks licensed to date are EAs 1, 2 and 3A, respectively in the Pakwach, Northern Lake Albert and Southern Lake Albert/Semliki Basins. EAs 1 and 3A are jointly licensed to Canada's Heritage Oil and UK's Tullow Oil, with Tullow also holding a 100 percent interest in Block 2. EA4B (Southern Lakes Edward-George Basin) is licensed to the UK's Dominion Petroleum and EA5 (Rhino Camp Basin) to another UK-listed small company, Neptune Petroleum, now known as Tower Resources.

Since 2006, Heritage and Tullow have undertaken extensive exploration and made some promising finds onshore. Oil was first discovered in EA2, over a 100 km range along the shores of Lake Albert, followed by EA3A, again on the shores of Lake Albert. In January 2009, it was reported that Heritage had also struck lucky at the Butiaba-Giraffe complex in EA1, north of Lake Albert, in the Murchison Falls National Park, finding an estimated 400 million bbl of oil, in what was described by Heritage's chief financial officer as 'unquestionably the largest onshore discovery made in sub-Saharan Africa in at least 20 years'.¹¹

Tower recently sold an equity share in EA5, adjacent to EA1, to Australian junior Global Petroleum. Neptune/Tower had completed its seismic survey and begun drilling by May 2009 (later reported as a dry well). By June 2009, Dominion had gathered seismic data of over 300km of EA4B. Based on its assessment, the 11 exploration leads are estimated to contain 782 million bbl. By the time this report is published, Dominion will have started its two-year exploration, with an initial drill of at least one exploration well.¹²

Current reserves estimated from exploration to date in Uganda are at around 700 million bbl of recoverable oil, with Heritage estimating potential total recoverable reserves at 2 billion bbl and Tullow, more conservatively, at 1 to 1.5 billion.¹³ One investment analyst believes that the Pakwach and North Lake Albert basins (EAs 1 and 2) could each have potential for up to 1 billion bbl.¹⁴ If estimates of around 1 to 1.5 billion bbl recoverable are correct, this would put Uganda among the foremost African oil producers. As oil prices have shifted in recent months, Tullow's Uganda Country Manager Brian Glover has been quoted by the Ugandan press as projecting between US\$2 billion to US\$5 billion annually as income to the government from oil revenues.¹⁵ Given that Uganda's current export earnings stand at US\$2 billion, even the lower figure clearly represents a major impact on the country's overall economic profile.

2.1.1 Plans for production

While Uganda's geological potential is promising, emerging differences between the government and oil companies over how the oil should be exploited may represent an obstacle – although it is important to note that such differences frequently occur at this early stage of oil development.

11 'Fresh Uganda oil find "Africa's biggest"', *The Times*, 14th January 2009. See also 'Ugandan giraffe lifts heritage', *Energy Intelligence*, 14th January 2009; 'Biggest oil well found in Amuru', *Daily Monitor*, 14th January 2009; 'Africa's largest onshore oilfield found in Uganda', *The East African*, 19–25th January 2009; and 'Huge oil well found near Lake Albert', *New Vision*, 21st January 2009.

12 See J. Bradbury. 'Uganda: 1.75 billion bbl of oil', *offshore247.com*, 22nd June 2009. Available at <http://www.offshore247.com/news/art.aspx?id=14051>.

13 'Tullow Oil: New drilling could put Uganda in top 50 producers', *AFP*, 20th February 2009.

14 Interview with NCB Stockbrokers official, London, March 2009.

15 'Uganda could reap \$5 billion annually from oil exploration', *Daily Monitor*, 8th December 2008.

While Tullow and Heritage appear to favour a pipeline or other transport option to export the bulk of the crude for refining, the government's preference is first and foremost to address local energy needs, proceeding to process the oil in-country for export, mainly for the regional market. Efforts to agree on a way forward are ongoing, with Tullow recently announcing it will service local demand first, only moving towards export planning on agreement with the government.¹⁶

In terms of production levels, Tullow estimates an output of between 100,000–150,000 barrels per day (bpd) over a possible 25-year production period. Tullow inherited from its predecessor, Hardman, an agreement with the government to construct an Early Production Scheme (EPS), consisting of a 4,000–5,000 bpd mini-refinery/topping plant using the reserves identified in the Mputa Field (EA2) for the production of kerosene, diesel, and heavy fuel oil. The heavy fuel oil was to be used to generate 50–100MW of electricity to alleviate power shortages in the country, while the kerosene and diesel produced are also intended for the domestic market.

In March 2009 Tullow announced that, due to new finds, the EPS could be expanded to between 10,000–20,000 bpd over the next few years.¹⁷ However, by June 2009 plans for the EPS were publicly shelved by both company and government officials.

According to analysts, the viability of the original EPS plan was questionable from the start. While there was little public discussion in Uganda about the overall cost of the EPS, Tullow stated it would cost around US\$300 million – and it was not clear where financial backing was going to come from.¹⁸ The estimated production costs per unit of the EPS were also thought to be very high. In October 2008, the Ugandan press quoted an independent oil sector analyst describing ‘an EPS by 2009 in a “remote” country that is “new to the oil and gas business” as unrealistic and dubious’.¹⁹ In addition, the sites proposed for the EPS, within or near a national wildlife park, generated public concern due to likely negative environmental and social impacts – as well as uncertainty as to the merits of the EPS plan moving ahead even as further discoveries were being made across a wider geographic area.²⁰

The government, in line with its *National Oil and Gas Policy for Uganda, 2008* (NOGP – discussed in further detail below) remained committed to the EPS plan until very recently.²¹ The NOGP refers to plans ‘to undertake medium to large-scale refining in the country to satisfy national and regional petroleum products requirements [...] in line with the country’s policy of value addition’.²² Perhaps as a result of the new finds, other options for meeting both immediate energy demands and longer-term refining needs are being considered. However, the signs are that government remains set on refining in-country rather than exporting its crude. Minister for Energy Hillary Onok recently stated that the government favours construction of a 100,000–150,000 bpd export refinery, mainly to reduce its dependency on imported oil products via Kenya.²³ At the East African Petroleum Conference in Mombasa in March 2009, Minister Onok also emphasised the Ugandan government’s desire for energy independence and added value, stating: ‘Our objective is to process the oil. We don’t want to export it [...] Our aim is to get an economic return, to get jobs, investment. We don’t want anything raw to get out’.²⁴

16 ‘Uganda to be among top 50 oil producers – Tullow’, *New Vision*, 2nd July 2009.

17 ‘Tullow expanding Uganda early oil production plan’, *Dow Jones*, 11th March 2009.

18 Norwegian company Jacobsen Electro AS had been contracted to build the thermal plant that will generate the electricity and were seeking financial backing from the Norwegian Guarantee Institute for Export Credits (GEIC), but this was never finalised. International Alert interview with Tullow Oil, Kampala, Uganda, March 2009.

19 ‘Refinery construction to begin in January’, *Daily Monitor*, 11th September 2009.

20 See for instance ‘Oil refinery to be built this year’, *New Vision*, 31st July 2008. The recently formed Civil Society Coalition for Oil in Uganda (CSCO) sent several submissions to the National Environmental Management Agency (NEMA) about these issues.

21 Government of Uganda (February 2008). *National Oil and Gas Policy for Uganda*. Kampala.

22 NOGP, 2.1.

23 ‘Uganda wants all of its oil refined domestically’, *Oil & Gas Journal*, 16th March 2009.

24 Ibid.

Tullow is now suggesting a “step-wise” approach, to include building a smaller refinery that could meet domestic energy needs but at lower cost, while longer-term options for a larger refinery and/or pipeline are explored.²⁵ Tullow’s stated preference for some time has been that the bulk of the oil be exported via a 1,400 km pipeline to Kenya, for sale on the international market. The company, for both financial and technical capacity reasons, would seek an equity partner with suitable experience for the construction of the export pipeline it plans to bring Uganda’s oil to the international market.

The government, through the Ministry of Energy and with financial and technical support from Norway through its Oil for Development programme, is at the time of writing finalising the terms of reference for a study into options for refining and exporting Uganda’s oil. The government is interested, however, in focusing this study on building a major refinery within Uganda, even as other industry experts insist an export pipeline would make more economic sense. Tullow has meanwhile also commissioned analysts Wood Mackenzie to undertake a study on the strategic feasibility of the refinery option. It is too early to determine how the larger refinery project would be financed, but cost estimates for a 100,000–150,000 bpd refinery start at around US\$4 to US\$5 billion.²⁶ One international business analyst noted that ‘the economics of refining are looking very shaky in the current financial crisis’, adding that obtaining accurate data to determine the real size of any potential regional export market could prove difficult.²⁷ Indeed, the *Financial Times* has reported that ‘more than four out of five refinery construction projects face cancellation as the worldwide collapse in oil demand wipes out all but those developments with strong government backing’.²⁸

According to analysts, the logistics of building a pipeline for the required distance, and to deal with the kind of “waxy crude” found in Uganda, are also not straightforward. Estimates for the cost of the pipeline vary. Heritage has put a US\$1.5 billion price tag on it,²⁹ while Tullow’s estimates are much higher, at around US\$3.5 billion.³⁰

A further option for transporting oil to international markets has been proposed by Heritage: via rail to Lake Victoria and then on to Tanzania.³¹ Analysts see some considerable advantages to this option, in terms of “value addition”, in that it would provide the country with valuable transport infrastructure, opening up access to trade for new areas, and allowing for incremental development of oil fields. They also note that the logistics of the rail option are more complex than those of a pipeline; that rail freighting would involve health and safety issues; and that the costs of upgrading the existing track has not yet been quantified.

2.2 Policy framework for managing oil in Uganda

In February 2008, Uganda’s Ministry of Energy published the NOGP, which explicitly recognises many of the challenges that were identified in Section 1 of this report; including the need to mitigate the potential for negative economic and fiscal impacts that often stem from a sudden influx of oil wealth. The NOGP outlines internationally-recognised mechanisms for managing such impacts and turning the finite resource into sustainable development outcomes (Introduction,

25 Brian Glover, presentation to development partner Energy Group, Kampala, June 2009.

26 International Alert interviews, London and Kampala, March 2009.

27 Ibid.

28 ‘Collapse in oil demand threatens to halt 80 percent of new refinery projects’, *Financial Times*, 14th November 2008.

29 Ibid.

30 International Alert interview with Tullow, Kampala, March 2009. There has also been speculation that an export pipeline would follow the route of existing import pipelines. In March 2009, it was reported that the CEO of Tamoil, the Libyan company contracted to extend the current import pipeline between Kenya and Uganda so that it can reach Kampala, cited ‘plans to extend [the pipeline] further to the Albertine Rift so it can be used to transport oil for export when Uganda reaches full-scale production’. ‘Kenya-Uganda oil pipeline to be extended to Albertine Rift-Co’, *Dow Jones*, 26th March 2009.

31 ‘Train instead of pipeline’, *Africa Energy Intelligence*, No. 599, 25th February 2009.

5.1.1). It also highlights the need for a long-term national strategy to ensure optimal impacts from oil and gas exploitation by maximising value along the value chain. The overarching goal of the policy is that oil and gas development in Uganda will ‘contribute to early achievement of poverty eradication and create lasting value to society’ (5.2).

In particular, the NOGP concurs with the emerging global consensus on the critical importance of transparency in handling all aspects of natural resource management, with transparency and accountability towards stakeholders enshrined as a guiding principle in Uganda’s future governance framework.

‘Openness and access to information are fundamental rights in activities that may positively or negatively impact individuals, communities and states. It is important that information that will enable stakeholders to assess how their interests are being affected is disclosed.

This policy recognises the important roles different stakeholders have to play in order to achieve transparency and accountability in the oil and gas activities.

This policy shall therefore promote high standards of transparency and accountability in licensing, procurement, exploration, development and production operations as well as management of revenues from oil and gas. The policy will also support disclosure of payments and revenues from oil and gas using simple and understood principles in line with accepted national and international financial reporting standards’.³²

As part of this, the NOGP also recognises in its closing pages the key role to be played by local governments, civil society organisations (CSOs) and cultural institutions in promoting the transparency and accountability that is critical to sustainable oil development through ‘advocacy, mobilization and dialogue with communities’ (7.3) – though in comparison to other sectors, the specific role of CSOs is relatively vaguely described.

The NOGP is a very important document and sets a high standard for the future governance of oil in Uganda. It is, however, more a set of principles than a detailed governance guide, and is short on specifics such as, for example, the all-important question of how revenues will be distributed at a local level; or precisely how civil society’s role in promoting transparency and accountability will be operationalised at both central and local levels.³³ New legislation implementing the NOGP across different areas of policy is now eagerly awaited in parliament, and will help determine many of these issues.

2.2.1 Uganda’s new oil legislation

Though perhaps inevitable in emerging oil-producing states, the sequencing in Uganda of exploration proceeding without the existence of an up-to-date regulatory framework for managing it, poses its own challenges. Indeed, the NOGP recognises the need to ‘upgrade the existing regulatory framework by putting in place a new law for the administration of oil and gas activities and a law for the management of oil and gas revenues’ (p.ix).

Drafting of the new legislative framework has, according to the Ministry of Energy, been based directly on the NOGP, and is currently being discussed by cabinet. It will have three main components: resource management, revenue management, and environmental protection. The Ministry of Energy states that there is currently a moratorium on further licensing until the new legislative framework has been approved, despite many expressions of interest by oil companies in obtaining new exploration rights.

³² NOGP, 5.1.3.

³³ International Institute for Environment and Development (December 2008). ‘Public participation and oil exploitation in Uganda’, *Gatekeeper Series*, No. 13. London: IIED, pp.8-9; and A. Bainomugisha, H. Kivengyere and B. Tusasirwe (2006). ‘Escaping the oil curse and making poverty history’, *ACODE Policy Research Series*, No. 20. Kampala: Advocates Coalition for Development and Environment.

The timetable for adoption of the legislation – which will in fact mostly appear as adjustments to existing laws such as the Public Finance and Accountability Act with respect to revenue management for example, rather than drafting of a separate “oil law” – is expected to be the last quarter of 2009, according to the Ministry of Energy. Others are far less optimistic and anticipate a longer process. The Ministry of Finance in an interview with International Alert, anticipated that it would be passed ‘within this fiscal year’ i.e. before July 2010.

The new legislation presents a critical opportunity to enshrine concrete steps for ensuring transparency in the sector across the whole range of policy areas covered.³⁴ Judging from the standard set by the NOGP and interviews held with various stakeholders close to the legislative process by Alert (including representatives of the Ministries of Finance and Energy, the IMF, the Norwegian Embassy, etc.), it seems likely that the legislation will take on many aspects of international best practice to this end.

Although the Ministry of Energy reports that the government will organise national-level consultation about the various components of the new legislation, implementation of this aspect would appear to be late given the proposed timeframe for the laws to be finalised. As will be discussed throughout this report, there is an extremely urgent level of need for public information, awareness-raising and capacity-building at both national and district levels on oil issues. Consultation on the new legislation is necessary as part of this information and feedback process. Concern and speculation among citizens particularly regarding the revenue management aspects of the new legislation is mounting, and gathering views from affected districts and overall from citizens nationally seems critical to fulfilling the aspirations of the NOGP to involve stakeholders in policy development.

The potential for a disappointingly low degree of public involvement in airing some of the key aspects of the new framework is compounded by challenges in the parliamentary process of reviewing the legislation – which once agreed by cabinet goes straight into committee through the Natural Resource Committee (NRC), before being presented more widely to parliament as a whole (see Box 4). MPs of course vary in their attitudes and level of exposure to the technicalities of the oil industry either as relates to exploration and production, or relevant policy frameworks. While a handful of MPs are extremely well-informed and active on oil issues, many complain about a lack of access to information, as well as a politicisation of the debate.

Box 4. De-politicising the oil debate – what role for the Natural Resource Committee?

The Natural Resource Committee (NRC) received copies of the Production Sharing Agreements (PSAs) signed between companies and the government in July 2008, but did not move to disseminate these more widely – nor according to some accounts, were the critical documents shared across all members of the NRC. In March 2009 *The Independent* quoted a statement by an active member of the NRC, Hon. Stephen Birahwa, who is also MP for the oil-affected area of Buliisa, near Lake Albert (EA2), that the NRC had copies of the contracts but they were not being disclosed publicly ‘because of the confidentiality clauses that bind government’. Speaking in his capacity as member of the NRC, Birahwa is quoted as saying that ‘As long as government insists on non-disclosure, as legislators we will respect that’.

In Uganda, parliamentary committees are dominated by ruling party representatives, which can lead to criticisms that party political concerns colour debate. The number of MPs represented is also inevitably

³⁴ Including, for example, provisions to ensure that the licensing process, including pre-qualification of companies to bid, is conducted openly and transparently, and with sufficient oversight to ensure that bidders really do meet the technical and financial criteria for pre-qualification.

limited – with regard to discussions of oil-related issues, this structure excludes a large number of parliamentarians representing oil-affected districts that are not included in the NRC. Their views on the oil legislation will only come in at a later stage. Opposition MPs interviewed by International Alert in March 2009 stated that they were excluded from any discussion about oil development. In a press report, the leader of the opposition in parliament, Professor Ogenga Latigo, complained that the Opposition ‘was not invited for the national seminar on oil revenue’ which took place in Kampala in July 2008. Other parliamentary committees such as the Public Accounts Committee (PAC) also have a critical role to play.

The Petroleum, Exploration and Production Department (PEPD) stated in an interview with Alert that there was no real obstacle to wider dissemination of the PSAs within or outside the NRC, and that the blockage arose from a lack of confidence on the part of the NRC as to their role and responsibility on this issue.

In a positive development, the NRC requested and secured a meeting with the Ministry of Energy which took place in April 2009 in Entebbe, seeking clarification on a number of issues including the PSAs, and expected progress with the new legislation. It is to be hoped that this activism, as well as systems for the NRC to work more closely with the rest of parliament who are also concerned by developments, will increase – particularly in the build-up to debate on the new oil legislation; and that such parliamentary leadership will transcend divisive party politics in the interests of galvanising debate in the national interest.

2.2.2 Framework for managing environmental impacts of oil

The NOGP enshrines ‘Protection of the Environment and Conservation of Biodiversity’ as one of its guiding principles (5.1.5). To operationalise this, the NOGP mentions, firstly, putting in place the right ‘institutional and regulatory framework to address environment and biodiversity issues relevant to oil and gas activities’ and, secondly, ensuring there is ‘the necessary capacity and facilities to monitor the impact of oil and gas activities on the environment and biodiversity’.

The principal agency in Uganda for monitoring environmental impacts and for coordination of management and protection of the environment is the National Environmental Management Agency (NEMA). For each proposed oil investment, the company in question must produce an Environmental Impact Assessment (EIA), which NEMA must then make public, giving the affected community and other stakeholders the right to respond. In addition, on issues of national importance such as oil development, EIAs can be subject to public hearings, as took place in Hoima in July 2008 over the location of the EPS, for example.

NEMA’s position is that ‘NEMA is keen to have public participation’, and that this will take place with ‘key stakeholders’ when NEMA carries out an overall strategic environmental assessment (SEA) as part of the government’s proposed feasibility study of the oil and gas sector. NEMA is currently still at the scoping stage in terms of how this consultation process will work, and the identification of stakeholders.³⁵

However some commentators question NEMA’s capacity to manage the likely environmental impacts of the oil industry in Uganda. In fact, with regard to EIAs, NEMA largely relies on comments from other lead agencies – in most cases this is PEPD, and in the case of protected areas, also the Uganda Wildlife Authority. EIAs are often not made more widely public despite being public documents. Concerns have therefore been raised over the meaningfulness of public involvement in the current EIA process overall; over NEMA’s own compliance with EIA procedures and its monitoring of company operations; and over the adequacy of existing

³⁵ International Alert interview, Director of Compliance, NEMA, Kampala, March 2009.

provisions of environmental protection legislation.³⁶ International development partners such as the World Bank are now focusing on supporting an increased capacity on the part of NEMA even as the environmental aspects of the new oil legislation are being developed.

2.2.3 Transparency in Uganda's oil sector to date

In line with the NOGP, the facilitation of information to, consultation of, and participation in planning by different stakeholders in all aspects of Uganda's planning and management of its oil resources should be at the heart of government policy and practice. One Ugandan newspaper comments: 'there is unlikely to be sustainable development based on oil revenue unless people are involved in the decision-making process and also informed at every step'.³⁷

In practice, NOGP theory on ensuring oil development occurs with full transparency and accountability, and particularly with meaningful participation by various stakeholder groups, appears to differ substantially from practice to date – which is why effective consultation on the new oil legislation, as indicated in the previous section of this report, becomes all the more important. Interviews carried out with Ugandan and international CSOs, expert commentators, MPs, as well as debate in the press point to a widely-held perception that government bodies are “secretive” when it comes to providing information about the progress being made.

Lack of disclosure on terms of contracts

Many observers question why negotiations between government and oil companies in Uganda for the award of licences on the initial five EAs have been carried out in secret, and why the PSAs have not yet been made public, nor discussed in, or ratified by, parliament. While the government did share the PSAs with individual MPs from the NRC in July 2008, as discussed in Box 4, these were not disseminated more widely even in parliament. Notwithstanding the Ministry of Energy's recent move to share the terms of the PSAs and other industry-related information with parliamentarians, the long delay, and still limited reach of this dissemination, has led to disquiet among observers.

In fact, the terms of the PSAs are, in the view of those that are close to them (including companies, the IMF and the Ministry of Finance), highly favourable to government, as is also corroborated by the information that can be gleaned publicly. Over the estimated 25 years of production, the state will see an average of 70 percent of the oil revenue, although in the first three years this will be much lower.³⁸ Tullow Oil also stated during an interview with Alert that government take would average 70 percent, but could reach up to 90 percent or even 95 percent of revenues, once development costs were recovered. President Museveni was reported in the media stating at a public rally that '80 percent of the revenue accrued' would go to the government.³⁹

Although such information can be pieced together from media sources, commentators continue to complain that the contractual arrangements and sometimes complex formulae that produce the figures still remain unknown, meaning there has been no independent scrutiny of the fiscal terms. Furthermore, these figures may not give the complete picture. As the *Sunday Monitor* asks: 'Will oil companies be able to deduct recovery costs, royalty payments, or other expenses from their taxable income, and if so, for how long? Such details could amount to huge sums of money gained or lost for Uganda'.⁴⁰

36 In some cases, civil society organisations (CSOs) have submitted their comments to NEMA on specific EIA processes but failed to receive a response or secure a follow-up appointment with officials.

37 'Secret deals worry oil-rich communities', *The Independent*, 13-19th March 2009.

38 'Lack of transparency may threaten Uganda's future as an oil producer', *Sunday Monitor*, 14th September 2008. See also 'Sharing of oil and gas revenues in Uganda', *Uganda Wildlife Society*, Oil and Gas Series, No. 1, October 2008, which reports the following (broadly similar) figures from a presentation given by the Permanent Secretary of the Ministry of Energy in 2008: 'Sections of the PSAs indicate that government has negotiated a 15-20 percent state participation, 5-12.5 percent share of royalties, 50-60 percent cost of oil and 40-75 percent production share, depending on the daily extraction rates. Government will also levy up to 30 percent income tax, surface rentals, signature bonuses and training fees to attract up to 70 percent total government take of the generated wealth'.

39 'Govt to get 80 percent oil cash', *New Vision*, 22nd October 2008.

40 'Lack of transparency may threaten Uganda's future as an oil producer', *Sunday Monitor*, 14th September 2008.

In new exploration frontiers such as Uganda's Albertine Rift, there may well be an argument in favour of initially conducting closed-door negotiations over the awarding of licences, given the higher risks involved and thus the potential difficulties in attracting industry interest when compared with tried and tested exploration areas. The government has indeed on several occasions cited national security and confidentiality clauses contained in the PSAs. There is, however, a growing consensus that international best practice is for disclosure of contracts – or, at the very least, of any clauses pertaining to the generation and use of fiscal revenue – and for licensing rounds to be conducted in an open and competitive manner, so as to guard against malpractice. This practice is in line with the NOGP's statement that the country should 'use open and transparent bidding as a basis for licensing and only consider other licensing options where necessary'. Without this, it is impossible for 'stakeholders to assess how their interests are being affected', as the NOGP promises. Faced with this contradiction between policy and practice, two *Daily Monitor* journalists, supported by the Ugandan NGO HURINET, have filed a civil suit to compel the government to release details of the oil contracts to the public under the 2005 Access to Information Act.⁴¹

Limited disclosure of signature bonuses paid by companies

According to the Acting Commissioner of Uganda's PEPD, while no signature bonuses were signed for the first round of licences, bonuses were paid on two of the most recent licences, as reserves were by then looking more promising.⁴² The most recent licences, according to the NOGP, were awarded to Neptune on 27th Sept 2005 (EA5 Rhino Camp), and to Dominion on 27th July 2007 (EA4B Southern Lakes). Alert asked Dominion if it had indeed paid signature bonuses and the company replied that it would have to check with the PEPD before answering. Tullow Oil stated to Alert that the company had paid no signature bonuses but that they believed their predecessor, Hardman, had paid a bonus for their licence, and Heritage also stated that they had paid a signature bonus in 2004. According to the PEPD, bonuses that have been paid have been made public. Despite the PEPD claim that bonuses have been made public, none of the CSOs and MPs interviewed for this report (nor, surprisingly, the IMF representative) said they were aware of any bonuses being paid. In November 2008 the PAC demanded an investigation, having noted there had been no accountability offered to date for any signature bonuses collected.⁴³ Given that this issue concerns the collection and utilisation of public revenues, it is essential that there is full disclosure of: (i) the amount of monies received, if any, and from whom; (ii) when they were received; and (iii) their destination. The receipt and use of any sums should also be independently audited.

Limited information about oil exploration activities and production plans

Several expert sources and observers interviewed for this report highlighted the lack of public debate over the EPS and larger refinery options, and raised the issue not only of environmental and social impacts, but also whether in financial terms the EPS or a multi-billion dollar larger-scale refinery made sense in light of the NOGP's stated objective of efficient use of oil and gas activities 'to maximise their returns'; as well as ongoing discoveries across the Albertine Rift area.⁴⁴ While EIAs produced by the companies were supposed to be shared publicly through NEMA, more often than not this did not occur and NGOs had to lobby hard to obtain them, often accessing them too late to analyse and respond adequately. In addition, the conditions of approval for EIAs which were supposed to be made public usually were not, and when they were, contained simply vague and standardised statements rather than detailed comments.⁴⁵

41 'Citizens sue Uganda govt over oil contracts', *Daily Monitor*, 12th July 2008.

42 Interview with International Alert, Kampala, March 2009.

43 'Parliament opens fresh inquiry into oil deal', *Daily Monitor*, 28th November 2008.

44 Ugandan and international NGOs, through the recently-formed CSCO raised the issue of whether it constitutes 'the best and most viable solution to Uganda's energy needs, i.e. likely to produce the right products at acceptable prices' in a submission to NEMA in January 2009. Submission to NEMA on Tullow's addendum Environmental Impacts Assessment (EIA) on Site 2 of the EPS, 23rd January 2009, signed by AFIEGO, ACODE, BUCODO, EarthSavers, KHEDA, International Alert, NAPE, UJCC, Water Governance Institute, WCS and WWF.

45 International Alert interviews, Kampala, March 2009.

Other grievances have been noted at the district level where exploration is taking place, with officials complaining about a lack of consultation by central government or companies. In Amuru District, for example, local leaders complain about the secrecy surrounding oil activities by Heritage, and there have been all kinds of rumours circulating, many of which, while not necessarily credible, point to a high level of tension.⁴⁶ It was recently reported from Amuru that the opposition party Forum for Democratic Change (FDC) has demanded that, to dispel public suspicion, the government makes public the agreement it signed with Heritage Oil.

Ugandans' sense of exclusion from government decision-making over oil developments is discussed in several recent reports, contributing to an escalating negative atmosphere around the oil issue in public debate.⁴⁷ Observers have different views on whether the perceived lack of information disseminated by the government is intentional, as a means of maintaining absolute control over the new resource; or accidental, simply as a result of the newness of the issue as an area of policy and administration, and consequent capacity challenges. Several commentators stressed the latter view, emphasising the technical "know-how" gaps that are inevitably faced by any emerging oil-producing country; even while others interpret the lack of information as something more deliberate.

There are clear indications that the government recognises the need to place a greater emphasis on public consultation and information strategies in the months to come, as evidenced by the April 2009 workshop between parliamentarians and the Ministry of Energy, and interviews conducted for this report. It can only be stressed that a concerted effort by all relevant stakeholders to improve information flow about all aspects of the oil industry horizontally (away from Kampala) and vertically (from MPs, down to a grassroots level) is urgently required. The question of availability of information goes to the core of the potential for oil to exacerbate conflict dynamics in Uganda, as will be discussed throughout this report. Only through a proactive approach to information dissemination led by the government in coordination with companies, development partners and others, will citizens gain the insights and understanding that they need to prepare for the future, learn to ignore false rumours, and play their own role in ensuring positive outcomes in the oil sector.

2.3 Lessons from international best practice

Emerging international norms for good governance of natural resources have so far emphasised good fiscal governance, especially revenue transparency – the development of mechanisms and policies to enhance transparent collection of revenues from oil, gas and mining activities so that they can be mobilised for development and poverty reduction.⁴⁸ The rationale for this is that 'by increasing transparency and public information, civil society groups, journalists and parliaments can play a more active role in "following the money" and building systems of democratic decision-making on how resource wealth should be managed and spent'.⁴⁹ More recently, efforts have been underway to develop best practice to guide governments on ensuring transparency and maximising benefits along the whole "value chain" of oil and mineral wealth production. The remainder of this section of the report will detail best practice guidance from international policy sources, as a reference for stakeholders concerned with effective management of oil wealth in Uganda.

⁴⁶ See 'Suspicion, distress as PGB seals off Amuru oil fields', *Sunday Monitor*, 22nd February 2009; 'Make oil deal public – FDC', *Daily Monitor*, 24th February 2008; 'Secret deals worry oil-rich communities', *The Independent*, 18th March 2009.

⁴⁷ International Institute for Environment and Development (December 2008). Op. cit., Executive Summary, 'Public participation and oil exploitation in Uganda'; 'Defying history: Promoting the application of access rights in Uganda's Oil Sub-Sector', *AFIEGO Research Series*, No. 4, May 2008. Kampala: AFIEGO.

⁴⁸ See IMF (June 2005). Op. cit.; P. Collier (2007). Op. cit., Chs. 3 and 9.

⁴⁹ Oxfam America and Isodec (2009). Op. cit., p.14. This is obviously the impetus behind the IMF *Guide*, and it is worth mentioning in this respect the important body of work produced by CSO The Revenue Watch Institute, which started by being primarily focused on revenue and expenditure transparency but is now engaged 'in increasingly diverse forms of public finance monitoring, including service delivery, participatory budgeting, and aid and expenditure tracking'. See www.revenuewatch.org.

2.3.1 Revenue management

A key recommendation from international best practice is that all revenue streams and transactions should be clearly traceable and accounted for in the state budget, independently audited and that there should be regular public disclosure of revenues, along the lines of initiatives such as the Extractive Industries Transparency Initiative (EITI – see Box 5).⁵⁰

In addition, once collected, revenues should be managed in the context of an over-arching macro-fiscal framework that recognises both the volatility of oil prices and that oil is a non-renewable resource, and links revenue management to national budget processes. The importance of transparent decision-making over the use of revenues – whether for current spending, expenditure smoothing, or saving for future generations – and of good governance criteria in the management of any saving or stabilisation fund, is also highlighted, along with “rule-based” and transparent criteria for sharing benefits between central and local government.⁵¹

Box 5. *Publish What You Pay and the Extractive Industries Transparency Initiative*

Two key and synergistic initiatives, one of which promotes a mandatory approach to revenue transparency and one which takes a voluntary approach, are the international civil society campaign *Publish What You Pay* (PWYP), launched in 2002, and a multi-stakeholder initiative launched by the UK government in the same year called the *Extractive Industries Transparency Initiative* (EITI).

PWYP is a global civil society coalition, working with member organisations in over 70 countries, that helps citizens of resource-rich developing countries hold their governments accountable for the management of revenues from the oil, gas and mining industries. It does so mainly, as its name suggests, by advocating for mandatory disclosure by extractive sector companies of the payments they make to governments for access to oil, gas and minerals, and of government revenues earned from the extractive sector, ‘as a necessary first step towards a more accountable system for the management of natural resources’. Part of PWYP advocacy to achieve this end promotes changes to stock market listing rules requiring extractive sector companies to publish payments to foreign governments on an individual country basis. In 2008 the efforts in this direction of the US PWYP coalition culminated in the introduction of the *Extractive Industries Transparency Disclosure Act* (EITD) in US Congress. This is a bill which, if passed, would require disclosure of payments by all oil, gas and mining companies listed on the New York Stock Exchange, where 27 out of the 30 largest extractive sector companies that operate internationally are listed. PWYP also calls for bilateral and multilateral agencies ‘to require public disclosure of revenues and contracts for all extractive industry investment projects, development policy lending, and technical assistance programmes’. More recently, PWYP has moved beyond advocating for transparency in collection and expenditure of revenues to call for public disclosure of extractive industry contracts and for licensing procedures to be carried out transparently in line with best international practice.

EITI was launched in response to PWYP’s call for greater extractive sector transparency, and is a voluntary initiative in which participating mineral and oil rich governments agree to publish their receipts from oil, gas and mining activities, and extractive sector companies their payments, leading to an independent reconciliation of the reported figures, with any discrepancies being published and explained. Although participation is voluntary, there are specific steps a government must implement in order to become first a “candidate” and then to reach “compliance” within two years. Compliance with all six binding criteria of the EITI process is validated independently.

Twenty-five countries are currently candidates of the EITI, though only one has achieved compliance (Azerbaijan). Many candidates are African resource-rich countries including Cameroon, Congo-

50 E. M. Alba (2009). Op. cit., pp.11-13.

51 Ibid., pp.14-17.

Brazzaville, DRC, Equatorial Guinea, Gabon, Ghana, Nigeria and Tanzania. Norway is the only industrialised country that has signed up to implement the EITI. Around 40 oil, gas and mining companies support and participate in the EITI, which is also supported by donor countries such as Canada, France, Norway, the UK and the US, plus the international financial institutions and investors. The EITI has a secretariat based in Norway, an international board and a multi-donor trust fund to finance technical assistance to candidates.

Civil society groups such as PWYP also participate in the EITI, and have lobbied hard for independent civil society participation to become one of the binding criteria of the EITI process, which it now is. Civil society groups must participate actively in the multi-stakeholder committees implementing EITI at the national level, and civil society is also represented on the international board. In the four years of its existence, the EITI has achieved global recognition as a revenue transparency standard, and has also, uniquely for a multi-stakeholder governance initiative of this sort, been endorsed by the UN, G8, G20, AU, OIF and EU.

However, EITI has also incurred criticism precisely because of its limited, voluntary and non-binding nature, which can mean that implementation depends on the political will of the government in question. In some countries, civil society groups have been victims of intimidation, and overall there has been limited progress on countries achieving compliance status. These concerns have led to a renewed effort by the EITI Secretariat to increase the robustness of the initiative. Steps to be taken will include a validation of candidate countries' performance against the six criteria which is due to take place by February 2010. This should help to tighten the standard and may well see some countries being dropped; countries that persistently show a lack of progress, as was recently the case for Gabon, will be removed from the board of EITI.

For more information, see www.publishwhatyoupay.org and www.eitransparency.org. For a discussion of some of the limitations on countries achieving compliance status to date, see Oxfam America and Isodec (2009). Op. cit., p.15. See also 'Civil society protection a priority; other measures needed to complement EITI implementation', PWYP (press release), 17th February 2009. Available at <http://www.publishwhatyoupay.org/en/resources/doha-2009-civil-society-protection-priority-other-measures-needed-complement-eiti-implemen>.

The NOGP signals Uganda's intended future participation in the EITI, but the government has not yet formally moved forward on joining the initiative, though there have been several World Bank EITI missions.⁵² Some NGO observers and even the EITI Secretariat in Oslo seem unsure about the eventual outcome of this – however Ministry of Finance officials assert that any perceived delay is simply due to the work in progress that is Uganda's oil revenue management legislation – stating that it would be premature for Uganda to join until its framework for managing oil revenue (especially systems on taxation, harmonisation with the Public Finance and Accountability Act, and reporting procedures for the Central Bank) has been brought up to date.⁵³

EITI offers great potential to ensure high standards on oil revenue transparency in Uganda, both through its institutionalisation of an international peer review mechanism, and its insistence on a role for self-selected civil society representatives in scrutinising revenue management. In a context where government is wary of civil society, formalisation of this function through membership of EITI would bolster the aspirations of Ugandan civil society to perform its critical oversight function as well as develop its own capacity, and would also contribute to building much-needed public trust.

2.3.2 Saving for the future

In considering mechanisms for harnessing oil and mineral wealth for long-term development, experts have explored different “expenditure-smoothing” mechanisms governments can opt for

⁵² See NOGP, 6.

⁵³ None of the companies operating in Uganda are currently signatories to the EITI, though Tullow has expressed some interest. Given everything else the company is trying to do in terms of corporate citizenship in Uganda, joining would seem a complimentary step.

to counteract revenue volatility, and to set aside revenues for future spending, especially post-oil. To date there is some debate as to whether or not this should be done through the establishment of a stability and savings fund for the revenues (as is the case in one model revenue management scheme, the São Tomé and Príncipe Oil Law, discussed in Box 6). One expert argues that ‘saving the money into a sovereign wealth fund is wrong for these countries, as their big problem is lack of domestic capital’; though at the same time ‘neither should the revenues be used in the ordinary state budget because they come from a depleting natural resource. Instead, nations should invest in investing, by increasing the mass of domestic capital available’.⁵⁴

Others may disagree with this view. As the World Bank’s *Extractive Industries Value Chain* notes, ‘to avoid wasteful expenditure and/or the resource curse, special “oil and mineral funds” have been created in a number of producing countries’. The purpose of such funds can be to smooth expenditures over time or to save revenues “for a rainy day”, to combat the negative impacts of price volatility; to set money aside for future generations; and as an emergencies fund to be drawn on in case of extraordinary events such as natural disasters.⁵⁵

The best-known example of such an oil fund was set up in 1990 by Norway; it has now become the country’s pension fund. All oil revenues are channeled into this fund, which is managed by Norges Bank, and at end-2008 was valued at around US\$330 billion.⁵⁶ Around 4 percent (considered to be a normal rate of return) is transferred annually to the state budget. Other examples of countries that have set up stabilisation and/or future generations funds include Timor-Leste and São Tomé.

Uganda has also announced its intention to ‘put in place a sustainable asset in the form of a petroleum fund to store revenues not used in the national economy and creation of a permanent source of wealth as a provision for intergenerational equity’ which would be administered by the Central Bank.⁵⁷

Whether these saving funds are seen as effective forms of managing revenues or not, there is consensus on how they should be managed, if established. Firstly, there should be transparent oversight procedures, including independent audits, preferably enshrined in a legal framework. Secondly, the fund should be integrated within the state’s overall fiscal management, that is, good fiscal discipline should be maintained; and finally, they should have prudent asset management guidelines.

2.3.3 Maximising benefits along the value chain

International discourse on combating the resource curse has recently evolved from its initial prioritisation of revenue management, to a broader concern with good governance along the whole value chain of extractive sector development. This extends from the award of exploration rights right through to the implementation of sustainable development policies and projects. The recent World Bank working paper on the extractive industries value chain outlines five steps for improving extractive industry revenue management, transparency and accountability at each link of the value chain.⁵⁸ The five steps are: awarding of contract and licences; regulation and monitoring of operations; collection of taxes and revenues; revenue management and allocation; and implementation of sustainable development policies. Some of the salient policy suggestions for each link of the value chain – which resonate with some of the challenges faced in Uganda’s oil sector raised in previous sections – are included below.

54 P. Collier (2007). Op. cit.

55 E. M. Alba (2009). Op. cit., p.15.

56 See ‘Government Pension Fund’, Norges Bank website. Available at http://www.norgesbank.no/templates/article____69365.aspx.

57 See NOGP, 6.2 and 7.2.

58 E. M. Alba (2009). Op. cit. This approach is also being advocated by many actors in the field of natural resource governance, including the PWYP coalition, as has been noted above. See also *Natural Resource Charter*, available at <http://www.naturalresourcecharter.org/>, initiated by economist and leading expert on the resource curse, Paul Collier.

Awarding of contracts and licences

Best practice as set out in the World Bank paper highlights the need for a proper legal, contractual and institutional framework to regulate access to natural resources by investors; ideally this should separate commercial activities from the state regulatory function such that any national oil company involved in exploration, production and marketing of oil should be distinct from those bodies performing regulatory functions, such as the energy ministry and petroleum agency. The risks inherent in not separating the commercial functions can be seen in the case of Angola's national oil company, Sonangol. Sonangol is not only the sector regulator responsible for monitoring the operations of other companies (including setting the terms for licensing rounds), it also acts as a fiscal agent for the government (collecting taxes, royalties and profit oil, and making expenditures) and takes part in upstream activities of exploration and production itself. The opacity of Sonangol's finances and the "twin-track" financing system that has resulted from this confusion of roles is well known.

In addition, although there is 'no model bidding system of strategy that governments globally can adopt', licensing rounds should ideally be open, competitive and transparent, and bidders should be suitably qualified in terms of technical expertise and financial capability to carry out exploration and production activities. Many countries pre-select or pre-qualify bidders in order to ensure in advance that they are competent and again, it is essential that this is done in a genuinely transparent manner so as to prevent abuse. A further source of guidance – the *Natural Resource Charter*, initiated by expert Paul Collier and others – recommends disclosure of the true beneficial owners of each pre-qualified company so as to 'prevent conflicts of interest and authorities steering business to firms in which they may have a share', for instance.⁵⁹

While there is no "one-size-fits-all" model for contracts, setting some bidding parameters in advance (for instance royalty or other tax and revenue rates, the work programme to be carried out, etc.) usually reduces the government's and investors' transaction costs.⁶⁰ Deciding the specific fiscal regime set by the contractual terms will also depend on variable factors, such as market conditions, government policy, and geological and country risks. However, one underlying principle is that whatever the fiscal regime, it should be "progressive". That is, the percentage due to the government on the basis of tax and other payments increases as the revenue basis increases, so the government's share of the profits increases as the investors' costs of exploration and production are reduced.

Regulation and monitoring of operations

State bodies charged with monitoring the operations of oil companies, for instance ministries of energy, petroleum and exploration departments, national environmental management agencies, etc., must have clearly defined roles and responsibilities, plus sufficient technical capacity to carry out their roles and be able to coordinate their actions effectively.⁶¹ In addition, development of accurate information on the extractive sector through setting up a national data bank is seen as key to improving transparency, certainty of rights, knowledge of the resource base, and the quality and reliability of government revenue estimates. Norway, for instance, has a "petroleum register" to hold all the data collected by companies for the use of both private and state agencies. Finally, it is noted that the most successful examples of environmental and social impact mitigation and monitoring involve early consultation and participatory monitoring practices at the local community level.⁶²

Collection of taxes and royalties

As stated above, the key recommendation is that all revenue streams and transactions should be clearly traceable and accounted for in the state budget. Moreover, the state needs to have

⁵⁹ 'Draft Precept 3', *Natural Resource Charter*. Available at <http://www.naturalresourcecharter.org/>.

⁶⁰ E. M. Alba (2009). Op. cit., p.6.

⁶¹ Ibid., pp.7-10.

⁶² Ibid., p.10.

adequate accounting and auditing capacity to ensure that revenues are collected and managed according to internationally recognised standards of accounting and reporting. Finally, regular public disclosure of revenues is also recommended, along the lines of initiatives such as the EITI.

Revenue management and allocation

As discussed above, this entails ensuring that revenues are managed in the context of an overarching macro-fiscal framework that recognises the volatility, uncertainty and cyclical nature of their prices, and, over time, the exhaustibility of oil, gas and mining resources, and ensuring they are linked to national budget processes. The importance of transparent decision-making over whether revenues are used for current spending as opposed to setting them aside for expenditure-smoothing or saving for future generations, and the importance of good governance in managing any saving or stabilisation is also highlighted. There should also be “rule-based” and transparent criteria for sharing benefits between central and local government.⁶³

Implementation of sustainable development policies

Available guidance states that investments should reflect the country’s national development strategy; ensure transparent procurement and financial management for particular projects; favour development of the non-oil economy in order to counteract Dutch Disease; and mitigate negative economic, social and environmental impacts of oil development.

Box 6. Models for best practice in oil governance: The São Tomé and Príncipe Oil Law

São Tomé and Príncipe’s 2004 *Oil Revenue Law* contains many elements of the best practices outlined above. It is inspired by two explicit underlying principles: the first takes into account the finite nature of oil resources, thereby introducing mechanisms that will allow São Tomé and Príncipe to face the post-petroleum era with minimum economic distress. The second centres on oil revenue management auditing, transparency and oversight mechanisms. São Tomé is also drafting, with the help of experts at Columbia University’s Earth Institute, a National Development Plan, which ‘will include a range of public investments and policy changes needed for the elimination of poverty on the islands’.

Some of the key elements of the *São Tomé and Príncipe Oil Revenue Law* are as follows:

- Collection and management of all oil revenues will be centralised through a single National Oil Account. Any deposits made in the the Oil Account can only be channelled to the State Treasury Account ‘as authorized by the National Assembly’.
- All revenues must explicitly be used for sustainable development and as part of a poverty reduction strategy. All budgetary and accounting procedures have to be approved by the National Assembly.
- Revenue-sharing between the central government and the Autonomous Region of Príncipe is also defined in law (7 percent annually).
- The law establishes an 11-member Petroleum Oversight Committee ‘with independence, and administrative and financial autonomy to ensure its effectiveness’, which includes one judge, one representative of the Autonomous Region of Príncipe, one member appointed by the president, three MPs nominated by parliament, including one opposition MP, two members of local government, one representative from business associations, one representative from the unions and one civil society member. This committee has responsibility for overseeing compliance with all aspects of the law and it has wide-ranging oversight and sanctioning powers, including the power to initiate investigations into any irregularities.
- The law stipulates that there must be a debate in the National Assembly every legislative session on general oil policy and on the oil account reports, and public debates will also be organised prior to this by the Petroleum Oversight Committee.

⁶³ Ibid., p.14–17.

- The law also establishes a permanent fund for savings and stabilisation purposes. There is only one annual transfer from this fund to the state budget, and this amount is defined in law according to certain parameters according to the rate of return on investments, with a ceiling on this amount.
- The fund has an oversight mechanism, the Investment and Management Committee, composed of the planning and finance minister, the governor of the Central Bank, three members appointed by the president and two MPs nominated by parliament, including one opposition MP.
- The fund is to be audited annually not only by the Auditor General's Office, but also independently by a firm chosen by the Petroleum Oversight Committee.
- Transparency is established as the underlying norm of all oil revenue management and there is to be full public disclosure of all data relating to oil resources, and management of oil revenues, including contracts, is enshrined in the law. The law stipulates the establishment of a Public Registration and Information Office, overseen by parliament.
- Confidentiality clauses in oil contracts are null and void. The only exemption is 'information concerning proprietary industrial property rights', but any exemptions must be proven, and exemptions can never apply to 'any financial information'.
- There are specific provisions to safeguard against corruption, including clauses in all oil contracts and other instruments and against conflict of interest. No public office holder can directly or indirectly hold an interest in any oil-related activity. There are also clear sanctions established if this does occur, including confiscation of the value of any economic advantage gained plus a fine.
- There is to be competitive tendering for all oil-related contracts.

Source: J. Sachs, W. Masters, V. Modi, A. Teklehaimanot and the Columbia University Advisory Project in São Tomé and Príncipe (April 2009). *Towards a consensus plan of action for São Tomé and Príncipe*. New York: Center on Globalization and Sustainable Development, The Earth Institute at Columbia University. Available at http://www.earth.columbia.edu/cgsd/STP/index_actionplan.htm.

3. National-level conflict risks

3.1 Ugandan national identity and future sharing of oil wealth

In large part due to familiar strategies of “divide and rule” that saw a hardening of ethnic identity throughout the era, British colonial rule in Uganda left a complex legacy regarding longer-term prospects for economic and political development. Of particular relevance to Uganda’s history of post-colonial conflict, the colonial era did little to build a functioning nation-state led by Ugandans.⁶⁴ In the years after independence, Ugandans experienced almost constant civil war as different individuals and ethnic groups vied to control the post-colonial state to their own advantage.

On coming to power in 1986, the National Resistance Movement (NRM) government made addressing what it termed “sectarianism” a central element of its political agenda. Critical milestones include the 1995 Constitution, which directly responds to the legacy of violence in Uganda; and incorporation of representatives of different ethnic groups into both government and the army. The Movement claimed to comprise all citizens, of all ethnicities, in a distinct no-party democracy – a deliberate effort to break with the ethnically-based politics of the recent past. At the same time, it sought radically to reform the economy, identifying economic opportunity for all as the best route away from sectarianism.⁶⁵ The NRM era has enabled Ugandans to enjoy far greater stability overall, and has seen a reversal of the catastrophic social and economic indicators associated with previous regimes.

There is some evidence, however, that despite the great advances towards a multi-ethnic national identity and pluralist political system under NRM leadership, momentum towards building a “non-sectarian” Uganda has waned. At the same time, it is becoming increasingly apparent that the social legacies of Uganda’s turbulent past are far from entirely resolved.

Current press reports and political commentary, for example, are increasingly characterised by one recurring issue: that the government favours members of Museveni’s own tribe – the Banyankole (emanating from Mbarara, Bushenyi and Ntungamo in the south-west of Uganda), as well as other “westerners”. Evidence of disproportionate representation of Banyankole among the senior ranks of the organs of state, and of an ever tighter nexus between the political elite and access to economic opportunities in the country, are common in press reports and other analyses.⁶⁶ Related to oil, rumours are already rife that Banyankole applicants have been given preferential treatment in being admitted to the new technical school being set up for oil experts at Makerere University; and that any future oil refinery will be built in Mbarara, to the detriment of the oil-rich areas themselves. While neither of these claims can be backed up by any evidence, they are indicative of growing disillusionment with the perceived ethnicisation of political power in Uganda today.

Critics of government’s post-1993 decentralisation policy go further, identifying a deliberate strategy of “divide and rule”, whereby many of Uganda’s newer districts are created along ethnic lines, as a means of appeasing a particular group of politicians or communities; or

64 S. Lwanga-Lunyiigo (1989). ‘The colonial roots of internal conflict’ in K. Rupsinghe (Ed.). *Conflict resolution in Uganda*. London: James Currey.

65 G. Hyden (1998). ‘The challenges of constitutionalising politics in Uganda’ in H. B. Hansen and M. Twaddle (Eds.). *Developing Uganda*. Oxford: James Currey.

66 One newspaper analysed the breakdown of national-level public sector appointments by region and found that people from the western region occupy 44 percent of all top jobs in Uganda although the west is only 26 percent of Uganda’s total population. ‘National cake: Who eats the chunks; who picks the crumbs?’, *The Independent*, 8th February 2009; also see ‘Family rule in Uganda’, *The Independent*, 11th March 2009.

for gerrymandering.⁶⁷ The trend of creating an ever-increasing number of new districts which now sees Uganda as number one in Africa and number four in the world among countries with the highest number of sub-national administrative units per state, further exacerbates this fragmentation.⁶⁸ Between 2005 and today, 37 new districts have been created along ethnic lines, with boundary demarcations and location of new district headquarters emerging as new flashpoints for tension. Opposition politicians explicitly accuse the government of using ethnicity to stay in power.⁶⁹

While it is clear that the issue of ethnicity in politics has itself become a locus of political competition, it is also apparent that outside the central political arena, ethnicity, politics and economy intersect to shape Ugandan society across the whole country. Northern Uganda is of course particularly affected by the trauma of wars that have been ongoing until recently, leaving legacies of mistrust against the central government as well as between different groups at a local level. Northern Uganda is not the only affected region, however, and cleavages exist throughout the country. A 2004 study by the NGO coalition Civil Society Organisations for Peace in Northern Uganda (CSOPNU), for example, found that Ugandans country-wide identified more closely with their respective tribal identities than with the broader Ugandan national identity – with many arguing that there was no commonality among Ugandans except for the fact that they were living within the same boundaries.⁷⁰ The report also revealed how the country is rife with stereotypes, prejudice and grievances among different ethnic groups, with many of these negative perceptions based on social memories of past conflicts.⁷¹ Recognition of these underlying dynamics in Ugandan society has led CSOs, particularly in light of the Juba peace talks with the Lord's Resistance Army (LRA), to call on government to adopt a national reconciliation process.⁷² The CSOPNU report highlighted different strategies prioritised by research participants, including a national process of truth and reconciliation, and the importance of civic education. A subsequent civil society initiative has sought to develop a National Reconciliation Bill, which is currently being worked through by the Justice Law and Order Sector Working Group before being put to parliament. However, as with regards to the creation of new districts, government policy is seen by some observers to be working directly against such goals.

Persistent tensions between different groups in Uganda lead not infrequently to low-intensity violent clashes among individuals or families, often triggered by issues such as access to land and other economic resources. The CSOPNU study found the relationship between political inclusion, resource distribution and peace to be a key source of anxiety among Ugandans about future conflict.⁷³ Another recent study published by the NGO Advocates Coalition for Development and Environment (ACODE) highlights just how pervasive conflict between different groups over land is at the present time; the study identifies 30 districts in Uganda where land conflicts threaten to escalate unless urgent measures are taken to resolve them, including inter-district border disputes, wrangles between landlords and tenants, and tenants resisting acquisition of land by investors.⁷⁴ In all cases, these conflicts are exacerbated by increasing population pressure.

Such tensions represent faultlines at a local level, and between different groups and the central government. As will be discussed in Section 4 of this report, these are already showing signs of

67 See Refugee Law Project (RLP) (June 2009). 'Breeding fragmentation? Issues in the policy and practice of decentralisation in Uganda', *Beyond Juba, Issue Paper*, No. 1. Kampala: RLP; and 'Museveni districts breeding tribal wars?', *The Independent*, 26th June 2009.

68 In 1962, Uganda had 17 districts; by 1995 it had 39 districts, and the number is now over 80. Each district in Uganda has an average of 375,000 people compared to 3.5 million in Nigeria. Many of the new districts perform poorly as they struggle to establish themselves; and tension over boundaries as well as political representation is also high. See 'Why new districts for east, north; west none?', *The Independent*, 10th September 2008. See also RLP (2009). *Op. cit.*

69 'The leadership has decided to dismantle the social fibre of Uganda', Leader of the People's Progressive Party Jaberu Bidandi Ssali quoted in *The Independent*, 26th June 2009.

70 See CSOPNU and JYAK (2004). *The need for national reconciliation: Perceptions of Ugandans on national identity*. Kampala: CSOPNU, p.8.

71 *Ibid.*, pp.10-12.

72 See, for example, www.beyondjuba.org.

73 CSOPNU and JYAK (2004). *Op. cit.*, p.19.

74 'Land wars threaten 30 districts', *New Vision*, 24th April 2009.

hardening further with the arrival of oil, as different individuals and groups begin to compete for access to anticipated oil wealth.

3.1.1 Revenue distribution

‘The major economic impact of oil discovery will be a boost in district incomes because of benefits from oil revenue; and that is dependent upon the percentage that the district will get’. (Amuru District)

The Independent comments that ‘according to the Mining Act, 80 percent of oil revenue goes to the central government, 17 percent goes to local governments and 3 percent goes to landlords’, but proceeds to report that ‘Bunyoro Kingdom, whose traditional territory covers the Lake Albert region, has been insisting a 50 percent share of the oil revenues be given to locals’.⁷⁵ Revenue-sharing and the respective roles played by central and local government – as well as traditional institutions – in managing oil development and its impacts were seen as key issues linking to conflict by most national-level stakeholders interviewed by International Alert for this report.

A common viewpoint was that, given that neither oil nor poverty are confined to one particular region, but instead cover the entire western rift of the country, and given the perceived potential for oil to exacerbate regional and social divisions, the benefits from oil should be viewed at a national level.⁷⁶ One MP interviewed stated: ‘Oil should be thought of as a national resource and not in tribal terms. Tribal identity is very strong still in Uganda [...] National rather than local interests should prevail’. Another respondent commented: ‘in terms of revenue-sharing, we need to look at the impact of oil on the economy as a whole, not just on locally affected areas’. Others emphasise there is also a need for ‘comprehensive planning’ so that oil-affected communities ‘are able to reap the desired benefits that will accrue from oil exploitation’.⁷⁷

At a local level, it is apparent from the perspectives on revenue-sharing gathered in the FGDs that were part of the Alert survey on oil and conflict in five districts (see Table 2 below), that there is a wide range of opinion on the best mode of revenue-sharing, and that at the same time many people do not have even a basic understanding of some of the issues involved. This lack of community awareness about the resource implies a vulnerability to manipulation and misconceptions that could contribute to future instability.

Table 2. Perspectives from oil-affected districts on revenue-sharing

District	Suggestions on sharing oil benefits
Arua	<p>‘Communities should have 15 percent and out of this 5 percent should directly go to parishes, while 10 percent should go the sub-counties. The other percentage should be a national share’.</p> <p>‘I suggest they should just give people employment. We should not waste time with things. Government should take some percentage, district also some percentage; then the balance is left for local people’.</p> <p>‘From the total percentage, the government should give us (the district) 30 percent, of which we shall give the landowners 3 percent and the remaining 27 percent will help the district to get out of poverty and develop [...] But my worry is who will witness and compute the amount extracted?’</p>

⁷⁵ ‘Secret deals worry oil-rich communities’, *The Independent*, 13–19th March 2009.

⁷⁶ International Alert interviews, Kampala, March 2009.

⁷⁷ Cited in ‘Leaders urge Ugandans not to target oil shares’, *Daily Monitor*, 21st July 2008.

Amuru	<p>'The district local government, the lower-level local governments and the community should be at the forefront of sharing this revenue [...] – cultural leaders, local governments; central government with each getting a percentage'.</p> <p>'Considering that our area has been ravaged by war for a long time and since this resource has been discovered in our area, the Acholi region should be given the first priority when it comes to sharing money from oil proceeds'.</p> <p>'You should realise the questions you are asking are sensitive. I am not here to discuss percentages [...] That is done by relevant authorities and the parliament'.</p> <p>'You have come here to get my opinion as a local council member; but that one needs higher decisions and the decision should be non-partisan'.</p>
Bundibugyo	<p>'Maybe there should be criteria formulated so that percentages are awarded to those involved or affected'.</p> <p>'The government should agree with oil companies on how the proceeds are to be shared, secondly, the local governments where oil activities are taking place should be given a percentage'.</p> <p>'Priority should be given to areas where oil exploration is taking place in terms of developing the area by providing social services'.</p> <p>'Loyalty to Local Government Development Programme III is important because this is a technical body at the district and it implements a number of government development projects. Central government should agree with local governments on how to share revenue from oil through percentages'.</p>
Hoima	<p>'We should get 25 percent [...] The local community should be given 40 percent after the investor has got his share. This is because we need services, yet we are not sure how long oil production will take'.</p> <p>'[...] 25 percent of the revenue should remain at the sub-county and the rest be given to other institutions, 40 percent should be left with the Bunyoro Kingdom and 60 percent for the rest of the country, our local councils should be given royalties that come directly not through the district'.</p> <p>'Oil in this country is for the nation; therefore we cannot talk about targeting a particular community; it is a national resource, therefore the money should be spent on schools, rural electrification and projects like building schools for the poor, availing water in rural communities, and scholarships for poor families'.</p> <p>'Oil wealth should be used to provide services like schools, hospitals to the local people [...] I don't think we have a say on how that money should be distributed, it is not our question to answer, such an issue might require parliament'.</p> <p>'The sub-county should retain a certain percentage; even the Kingdom should also retain a certain percentage; expenditure in schools, hospitals and social services should be increased'.</p> <p>'The local community should get the largest share of the oil revenue and the rest should go to central government, the local people should be given royalties because we have been displaced and some of our animals have died; we should be given 25 percent'.</p>
Kanungu	<p>'This money should be spent in social services delivery and improvement because nobody is expecting to get cash income like a salary'.</p> <p>'Whether we decided to give the money to central government, local government and whatever other institution, priority should be given to improving schools, hospitals, roads; when the roads are good, it will be easy to market our crops'.</p>

It is also apparent that in the absence of any clarity as to the legal basis for revenue-sharing as Uganda awaits its new oil legislation, speculation and positioning around this issue in the oil-affected districts is high among district elites and opinion leaders – particularly in areas which have had the longest to get used to the industry, notably Bunyoro where leaders have demanded that between 15–50 percent of oil profits go directly to the region. Some emphasise the role of

district governments in managing this, others advocate including some percentage for the Bunyoro Kingdom itself.⁷⁸

As found in international best practice on managing oil wealth, there is a clear need in Uganda for special attention to mitigating local impacts of the oil industry in affected areas, ensuring that the benefits are felt in those areas.⁷⁹ It is not clear how well equipped cultural institutions such as the Bunyoro Kingdom, which has been particularly vocal in claiming a direct share of revenue, are to achieving positive social and economic outcomes that extend beyond their cultural role, however. The effects of oil on Bunyoro are discussed in further detail in Section 4.

The backdrop of fragmented national identity and competition over access to resources in Uganda further underlines that timely consultation and clarification by the government on the forthcoming legislative framework governing oil revenue management and distribution is critical, if oil is to be exploited for peace and development.

3.1.2 The Balaalo herdsmen

The rising disquiet against what is seen to be an increasing prominence of ethnicity in the political process at the national level finds direct expression in people's perceptions about the Balaalo herdsmen – a group that are particularly prominent in local and national discourse about oil. The term “Balaalo” in fact refers collectively to anyone who looks after cattle: either his/her own flock, or as employed by others, and includes the Bahima of the Banyankole, Tutsi (from Rwanda and Burundi), the Bahuma among the Banyoro, the Batooro, and others. However the overwhelming stereotype about this group found in Uganda today is that they are made up of the Bairu (or labouring class) of the Banyankole tribe; or poor Bahima also of the Banyankole tribe (see Box 7 for an outline of social stratification in Ankole society), and that their role today is often to tend the distinctive cattle herds of the more powerful, pastoralist Bahima class.

Box 7. Social stratification in Ankole society

Legend holds that the first occupant of Ankole was Ruhanga (the Creator), who is said to have come from heaven to rule the earth. Ruhanga came with his three sons, Kairu, Kakama and Kahima. To determine which of his three sons would become the heir, Ruhanga tested them by making them keep milk-filled pots on their laps throughout the night. At the end of it all, the youngest son, Kakama, passed the test followed by Kahima and finally the eldest son, Kairu. Ruhanga thus decreed that Kairu and Kahima would serve their brother Kakama. Thereafter he went back to heaven, leaving Kakama or Rugaba, as he was also called, to rule the land. This legend explains the subservient position of the Bairu to the Bahima. It also resonates with legends of both the Banyoro and Batooro.

Source: R. Nzita and M. Niwampa (1993). *Peoples and cultures of Uganda*. Kampala: Fountain.

Throughout the Albertine Rift where oil prospecting is taking place, there are reports of Balaalo occupying land close to the oil activity – including in areas such as West Nile that are far from their traditional grazing grounds. In several of these areas, rumours go further to state that the Balaalo are actually buying land in such areas – often illegally and in collusion with corrupt local government officials. A common perception is that the herdsmen are using their large cattle herds

⁷⁸ See for instance 'Bunyoro demands share of oil profits', *Daily Monitor*, 27th April 2008; 'Mbarara backs Bunyoro's demand for oil profits share', *Daily Monitor*, 29th April 2008; 'Leaders urge Ugandans not to target oil shares', *Daily Monitor*, 21st July 2008; 'A kingdom wants its share', *Africa Energy Intelligence*, No. 470, 3rd September 2008; 'Lack of transparency may threaten Uganda's future as an oil producer', *Sunday Monitor*, 14th September 2008; 'Ituri wants its share', *Africa Energy Intelligence*, No. 474, 29th October 2008; 'What belongs to who', *Africa Energy Intelligence*, No. 475, 12th November 2008; 'Amuru oil find must teach govt something', *Sunday Monitor*, 18th January 2009; 'Secret deals worry oil-rich communities', *The Independent*, 13th–19th March 2009.

⁷⁹ E. M. Alba (2009). Op. cit, p.19–20.

to gain access to lands that will become more valuable as a result of the oil industry activities, and moreover they are doing so on behalf of powerful figures of the Bahima group in positions of military and political power within central government. In many cases, they are rumoured to have been given both the money to buy land and arms, again by these officials. Variations of these rumours were reported to Alert during a trip through oil-affected districts from Bundibugyo to Arua in July 2008 by numerous stakeholders; they emerged again in the survey conducted in April 2009 that is discussed in further detail in Section 4 on local-level conflict dynamics.⁸⁰



Ankole cattle searching for pasture.

© Great Lakes Safaris Ltd.

Concern about the Balaalo grabbing land is not limited to the oil-affected areas, but has also coloured controversy over the 2007 Land (Amendment) Bill, as a more widespread phenomenon even affecting Baganda districts and Apac.⁸¹ As attention to the Land Act Amendment Bill has died down, however, at least temporarily, the issue has remained as a focus of ethnic tension in the oil-affected districts. A particular flashpoint has been in Buliisa District, at the heart of the oil discoveries, where a bitter land conflict between the indigenous Bagungu and the Balaalo has simmered since 2007, with Bagungu accusing the Balaalo of grabbing their lands and the Balaalo claiming they had legally purchased the land from the Bagungu themselves in 2003.⁸² Several violent clashes and numerous injuries resulted from this conflict and President Museveni eventually intervened to order the Balaalos' eviction from the area. A subsequent court injunction brought by the Balaalo against six government officials was eventually overturned by the High

⁸⁰ See also 'I know of many Banyankole who have acquired land in oil-rich areas and have already processed titles. They are giving land to foreigners instead of the Banyoro'. Hon. Tom Kyahurwenda, MP for Buhaguzi, reported in *New Vision*, 5th May 2009; and 'Secret deals worry oil-rich communities', *The Independent*, 13–19th March 2009.

⁸¹ 'Will Balaalo and land define the 2011 elections?' *Sunday Monitor*, 20th January 2008.

⁸² 'Ethnic tension increases in Buliisa', *Daily Monitor*, 7th April 2009.

Court.⁸³ Despite the government's intervention against the Balaalo in this case, rumours persist in the area (as well as in other areas where Balaalo have moved with their cattle) that top-level figures are behind their apparent interest in settling in the oil-rich areas. It is perhaps significant that the case came at the height of controversy around the Land Amendment Bill at a time when government was working hard to dampen the vehement opposition and critique of the proposals from powerful interest groups and lobbies such as the Baganda Kingdom. While the Buliisa case has now been resolved, perceptions about a Banyankole-driven land grab of oil-rich land remain rife.

It is likely that the Balaalo's spread across oil-rich districts is influenced as much by pressures they share with many other pastoralist groups across Africa, namely land scarcity and broader exclusion from "modernity" – as any more sinister manoeuvring on their part or that of any backers.⁸⁴ The influence of myths, rumours and stereotypes about different ethnic groups in fuelling conflict should also be noted, however, and sound a warning note when interpreting pervasive beliefs about the Balaalo and their links to oil.⁸⁵ It is important not to forget the experience of another cattle-herding group who in fact share much of their ethnic heritage with the Banyankole, the Rwandese Tutsis.⁸⁶ While Rwanda's tragic experience of such extreme ethnic violence seems improbable in Uganda, a major challenge ahead will be to ensure that the ethnic tension accompanying the arrival of Balaalo in oil-affected districts does not fuse with people's more generalised mistrust of government and perceptions about Banyankole power in the country, becoming bound up in understandings about oil, to the point of engendering more serious levels of violence.

3.2 Implications for future stability

There is every possibility that, particularly as the 2011 election approaches, elite-led claims and counter-claims regarding different shares of revenue due to different districts or institutions will escalate; and that in the absence of clear and proactive communication from government, such claims will influence more and more people. One opposition politician is quoted as saying: 'If there was proper service delivery, if their children [were] studying very well, if there were good roads and well facilitated hospitals, [people in Bunyoro] would not be demanding a share but these are not there'.⁸⁷ Over time this dynamic could lead to a sharpening of divisions both within and between different sub-regions; as well as conflict between oil-affected districts and central government if expectations for an improvement in overall circumstances are not satisfied or handled with sensitivity.

The approaching 2011 elections loom large over the oil discoveries as a whole. The case of the EPS indicates that there are high practical and political gains to government inherent in the oil windfall, with the president promising both that Uganda become energy self-sufficient and the prestige of Uganda being one of the few African countries to refine its own product. While such achievements could do much to boost NRM popularity ahead of the elections, as President Museveni prepares to stand for his sixth term in office, the huge political and economic benefits to be gained by whichever group controls Uganda's oil, as evidenced from the experience of other countries, also has the potential to raise the stakes of political competition considerably (see

83 'Museveni tells Balaalo to vacate Buliisa land', *New Vision*, 23rd April 2008; 'High Court clears Balaalo eviction', *Daily Monitor*, 26th March 2009.

84 Unfortunately, it was not possible to interview representatives of the Balaalo in oil-affected areas as part of this research to confirm this possibility. See Saferworld, Africa Peace Forum and University of Bradford (2001). *Pastoralism and conflict in the Horn of Africa*. Nairobi, London and Bradford; 'Traversing valleys in search of water', *Daily Monitor*, 20th June 2009.

85 International Alert (2008). *Words that kill: Rumours, prejudice, stereotypes and myths amongst the people of the Great Lakes Region of Africa*. Nairobi: Alert.

86 There are in fact regional aspects to the perceptions that some Ugandans have about the Balaalo and indeed the Banyankole as a group, with some going so far as to claim that they are not Ugandan, but rather Rwandan. This relates to a generalised perspective found in different forms across the Great Lakes Region of a "Tutsi international power plot", see International Alert (2008). *Op. cit.*

87 'Mbarara backs Bunyoro's demand for oil profits share', *Daily Monitor*, 29th April 2008.

Section 1). This may spur the interest of competing elites or factions in regime change, a political risk that might not otherwise have seemed cost effective. Whether Uganda's oil will lead to this destabilising outcome remains to be seen, but the potential for this scenario is clear.

Research also revealed a strong current of cynicism among many people regarding Uganda's current style of government, and what it could signify about government intentions regarding sharing the benefits of oil. The perceived lack of transparency to date in the sector leads such observers to conclude that secrecy makes it easier to integrate political costs into deals, confirming their assessment of the NRM patronage-style of government. This system – which is inherently fragile – requires for its sustainability that rents are generated to sustain the loyalty of the ruling class where possible, and competing interests where necessary. The fact that the main security company contracted by one of the oil companies as well as other sub-contractors – notably Saracen – is linked to the ruling family is offered as evidence backing up this perspective; as is the limited public information about either the PSAs or signature bonuses paid by companies to date. In this view, any talk of consultation on the part of the government is seen by observers as a fairly superficial nod to international observers rather than genuine commitment. A large influx of oil revenue is in this view likely to compound the relative immunity to broad-based democratic processes that the government already has as a result of the high volume of international development aid as a proportion of the national budget.

Many of those interviewed for this report argued that transparency on oil issues was particularly crucial given the growing concern among Ugandan citizens about the corrosive effects of corruption on public life. One civil society interviewee stated: 'The lack of disclosure of contracts is a real sign of corruption and even if the companies are talking of Uganda joining the first fifty oil-producing countries, it will not help the people, instead everything will be eaten by corruption because, as of now, Ugandans lack the necessary information about their oil to continue the struggle for transparency and accountability'.⁸⁸ One newspaper echoes this feeling: 'It is [...] difficult to evaluate the promises made to Ugandans about the future effects of oil on their livelihoods and politics – especially against the looming threat of corruption [when] estimates show Uganda loses Shs 500 billion (around US\$24 million) to corruption every year'.⁸⁹ Uganda's ranking on the *Global Corruption Barometer* published by corruption watchdog Transparency International has indeed significantly worsened in recent years, with the country dropping to the last three places in the 2009 survey.⁹⁰

Reported lack of confidence on the part of Ugandans in the upcoming electoral process points to the possibility of 2011 becoming a flashpoint of discontent, with government's management of the new oil sector a prominent feature.⁹¹ The added ethnic dimension, whereby mistrust of government is increasingly articulated in objection to its perceived privileging of Banyankole interests, and the local-level "evidence" that people see in Balaalo movements across the Albertine Rift; as well as the emergence of powerful local-level tribal interests taking increasingly strident positions regarding their "share", is particularly troubling.

88 International Alert interview, Kampala, March 2009.

89 'Lack of transparency may threaten Uganda's future as an oil producer', *Sunday Monitor*, 14th September 2008.

90 Transparency International (2009). *Global Corruption Barometer 2009*. Berlin: TI.

91 H. Nakku (December 2008). *Electoral reforms in Uganda*. Uganda: Foundation for Human Rights Initiative; Afrobarometer (2009). *Popular attitudes to democracy in Uganda: A summary of Afrobarometer indicators*. Available at http://www.afrobarometer.org/Democracy%20Indicators/dem.indicators_uga_22apr09_final.pdf.

4. Local-level conflict risks

Oil exploration is taking place along the entire western rift of the country, an area that embraces a multiplicity of local government authorities, traditional institutions, and people of various ethnic groups. Given the context outlined in the previous section of this report of a fragmented national identity, and increasing mistrust of the political process at national level, the arrival of oil threatens to stir-up tension along different lines. The report will now briefly sketch some of the conflict histories and current dynamics that exist in each of the affected oil-rich sub-regions. It will then share findings from the International Alert survey in five of the districts that highlight how oil is already impacting conflict dynamics in different ways.

4.1 Overview of current conflict dynamics in the Ugandan Albertine Rift

4.1.1 South-western sub-region

The Rwenzori region bordering the DRC to Uganda's south-west comprises Bundibugyo where oil prospecting has taken place, as well as Kabarole, Kasese, Kyenjojo and Kamwenge. For the purposes of this report, "south-western" also comprises Kanungu District further south of the Rwenzori, bordering Rukungiri in the north, the DRC to the west and Kabale in the south. The region taken as a whole has experienced a number of conflicts during the NRM era, including ethnic conflicts, land conflicts, and insecurity related to its close position to the border (most recently the Allied Defence Forces [ADF] rebellion from 1992 to 2003). It is also significant that both of the districts directly affected by oil prospecting in this region – Bundibugyo and Kanungu – are among Uganda's poorest and least developed, with both districts only getting electricity in 2009; and construction of a Fort Portal-Bundibugyo-Lamia tarmac road scheduled for this financial year, for instance. Residents have long expressed feelings of marginalisation and exclusion from national wealth and development processes.



View from Bundibugyo town: the Rwenzori mountain range represents a natural, but porous, border with DRC.
© International Alert

Ethnic conflicts

The Rwenzori region is a multicultural region with three main tribes: the *Batooro* from districts of Kabarole, Kamwenge and Kyenjojo; the *Bamba* from Bundibugyo; and the *Bakonz* from Kasese. The Batooro is both the majority and more powerful, and tension and resentment can be traced back to the colonial period when British rule gave the Tooro Kingdom full political and legal control over the whole Rwenzori region, including over the other tribes. It is because of this history that the people of Bundibugyo and Kasese organised themselves into a “Rwenzururu rebellion” (1962–83) with the aim of separating their traditional institutions from the Batooro majority and gaining recognition.⁹² The politics of the region is still greatly influenced by these ethnic differences, which become particularly manifest during local government elections which are for the most part shaped by tribal loyalties (leading to further marginalisation of the smaller groups). These tensions are both an ongoing obstacle to development and source of tension, and urgently require efforts towards their resolution. A further dimension of ethnic conflict in the region relates to the presence of the minority *Batwa* tribe. Numbering about 6,000 in 2000, most of Uganda’s Batwa live in the South-western region.⁹³ The Batwa communities are primarily hunters and gatherers living in forest areas. Their lifestyle has kept them outside of formal education and employment opportunities, and Batwa are often resented and marginalised by their neighbouring communities due to their “primitive” lifestyle.⁹⁴ Many are also now landless due to gazetting of the region’s forest areas.⁹⁵

Land conflicts

Gazetted land, including the extension of Bwindi Impenetrable Forest in 2002, efforts to remove herders from Queen Elizabeth National Park in 2007, gazetting of Rwenzori National Park, etc., has been a significant source of conflict in the region, leaving a number of communities displaced and divided, having lost communal grazing land and access to other resources.⁹⁶ The arrival of immigrants (especially Balaalo and Congolese fishermen and refugees) has compounded the shortage of land, causing a high degree of competition often manifested along ethnic lines. The problem is exacerbated by the fact that ancestral land is not clearly demarcated.

ADF rebellion

The ADF – a rebel group that had its base in eastern Congo – began to destabilise the region considerably from 1996, settling in the foothills of the Rwenzori mountains, from where it launched attacks, abducted, and killed civilians in some cases.⁹⁷ In June 1998, in one of their worst attacks, the ADF invaded and set fire to the Kichwamba Technical Institute, burning to death over 80 students and abducting 200 others.⁹⁸ Such incidents heightened fear in the entire Rwenzori region, created large-scale displacement and severely hit the local economy.⁹⁹ Government forces pushed the ADF back to the DRC by 2000, and by 2003 most people were returning to their homes – though even today, rumours of a possible return of the ADF continue.¹⁰⁰

92 Rwenzori Forum for Peace and Justice (2007). *Traditional African mechanisms of conflict resolution: Causes and responses to conflict in the Rwenzori region of Uganda*. Fort Portal, Uganda: RFPJ.

93 Republic of Uganda (2002). *National Housing and Population Census Report*. Kampala: Uganda Bureau of Statistics.

94 G. Tumushabe and E. Musiime (2006). ‘Living in the margins of life: The plight of the Batwa Communities of South-western Uganda’. *ACODE Policy Research Series*, No. 17. Kampala: ACODE.

95 Kanungu District also suffered a major trauma in 2000 when over 500 people were murdered in an inferno organised by the Movement for the Restoration of the Ten Commandments cult. Widely condemned by national and international actors, and the subject of an ongoing commission of inquiry, this extreme incident has not developed into any kind of ongoing pattern or conflict. Nonetheless, it does perhaps illustrate the potential for violence to erupt in the district.

96 E. Obaikol. *Common property resource management in Uganda: The legal and institutional framework*. Available at http://www.landcoalition.org/cd_ILC/cd_commons/doc_case/CPR07_Case17_Uganda_Obaikol.pdf; also M. Onesmus (2006). ‘Gifted by nature, dispossessed by parliament: The plight of Mpungu Community in Kanungu District’. *ACODE Policy Briefing Paper*, No. 16. Kampala: ACODE.

97 The ADF consisted of remnants of the National Army of Liberation of Uganda (NALU), some local recruits and remnants of the Rwenzururu rebellion. Not much is known of their agenda which has, however, been linked to Islam.

98 Rwenzori Forum for Peace and Justice (2007). Op. cit.

99 L. Hovil and E. Werker (February 2004). *Portrait of a failed rebellion: An account of rational, sub-optimal violence in Western Uganda*. Kampala: RLP. Available at http://www.people.hbs.edu/ewerker/jennifer/Portrait_of_Failed_Rebellion.pdf, accessed on 26th April 2009.

100 International Alert interviews in Bundibugyo in July 2008; see also ‘ADF rebellion: Guerrilla to urban violence’, *New Vision*, 21st May 2007.

Porous regional borders and refugee spill-over

The porous border between the DRC and South-western Uganda facilitates easy movement between the two countries. During 2003, continued fighting between the Lendu and Hema in the DRC's Ituri province saw an increase in the number of refugees and many of these moved and settled in Bundibugyo District (which was only just recovering from the ADF incursion at that time), heightening insecurity amid fear of armed militias also seeking refuge.¹⁰¹ The increased population also exacerbated competition for already limited resources, in particular heightening conflict over access to grazing land. Many of these impacts are less contentious currently as security has improved, but large numbers of Congolese immigrants continue to live in the region.

Impacts of oil

People in the South-western region currently live in relative peace. Nonetheless the legacy of the various conflicts outlined above lives on, and there is a real need for efforts to foster peaceful coexistence between groups; as well as to address some of the persistent structural inequalities and challenges such as access to land and other resources facing the region. The potential of oil to heighten these tensions especially as they relate to land; tension between different ethnic groups; and between local people and the region's "Congolais" population, is highlighted in the quotes from Bundibugyo and Kanungu gathered in the Alert survey included in Section 4.2 below. Given these districts' proximity to the border with the DRC, any deterioration in relations between the DRC and Uganda related to oil would also have effects at a local level. More broadly, there are already signs that the two affected districts' wider feeling of exclusion from Uganda as a whole could be compounded by their particular experience of oil exploration to date, if not countered by improved information flow and confidence-building by government and companies alike. Residents of Bundibugyo interviewed by Alert saw evidence of what they perceived as their district's deliberate marginalisation in the fact that the oil exploration that started in the district in 2003 was halted as companies moved to other regions.¹⁰²

4.1.2 Bunyoro sub-region

Bunyoro Kitara, located in western Uganda, was one of the most powerful kingdoms in 19th-century East Africa. The kingdom, then under the rule of King Kabalega, was declared a British protectorate in 1894. King Kabalega was greatly opposed to the invasion of his kingdom right from the onset – for which he was captured and exiled in 1899. The British then gave large chunks of Bunyoro land to Buganda, and smaller chunks to the Tooro Kingdom, leaving Bunyoro greatly impoverished.¹⁰³ This history makes the region of Bunyoro especially sensitive regarding land issues, leading to ongoing land-related conflicts – including efforts to regain the remaining "lost counties" – that persist today.¹⁰⁴ It has also created a particularly powerful social memory of the injustices committed by the British that continue to inform politics in the region, including through efforts at seeking retribution from the former colonial adversary.¹⁰⁵ Within Bunyoro, a number of conflicts related to this history are simmering in the different districts.

101 Refugee Law Project (October 2003). 'Displacement in Bundibugyo District: A situation analysis', *Working Paper*, No. 10. Kampala: RLP.

102 International Alert interviews, July 2008.

103 S. Doyle and J. Curry (2006). *Crisis and decline in Bunyoro: Populations and environment in Western Uganda 1860-1955*. Ohio: Ohio University Press.

104 The contested land, commonly referred to as the "lost counties", includes the counties of Buyaga and Bugangaizi (Kibaale District – which still falls within Bunyoro Kingdom but is occupied by immigrants); and those in Buganda Kingdom include Buruli (Nakasongola District); Buhekura (Mubende District); Rugonjo – North Singo (Kiboga District); Bugerere (which is currently occupied by the Banyala in Kayunga District) and North Bulemeezi. (See <http://www.bunyoro-kitara.com/> for more information.) It was not until after independence that the two lost counties of Bunyoro were given back to the kingdom. However, the land given back did not have any land titles since the Baganda landlords are said to have fled with them. This infuriated the Banyoro, who since the early 1990s have regained momentum in their search for the land they were deprived of. The issue of the lost counties has resurfaced as one of Bunyoro's most urgent ethno-historical claims.

105 'Ugandans to sue over colonialism', *The Soc.culture.african newsgroup*, 2nd March 2004. Available at <http://news.bbc.co.uk/1/hi/world/africa/3525869.stm>. The Kingdom is seeking UKE3 trillion (US\$5,500 billion) as compensation for the lost land and atrocities committed by the British during the colonial period. In a letter written to the Queen, the Kingdom authorities also stated the number of families and animals destroyed during the invasion. Also see 'Bunyoro draws battle lines against colonizer', *The Monitor*, 7th March 2004; 'Africa King aims to bankrupt Britain', *The Telegraph*, 15th March 2004.



The recently restored monument celebrating King Kabalega, exiled by the British in 1899 as punishment for his resistance to colonial rule.

© International Alert

Kibaale District: Indigenous Banyoro vs. immigrants

In the 1960s and again in 1993, Bakiga from Kabale District moved and settled in Kibaale District which was then sparsely populated, as part of a government resettlement scheme that sought to address overcrowding in Kabale. Immigrants have continued to move and settle in forested areas in Kibaale, leading to opposition among Banyoro who object to the possibility of being outnumbered by the immigrants; domination in the spheres of political power; and increased competition for land.¹⁰⁶ The situation is by now highly volatile, with Banyoro – at odds with the Ugandan constitution which gives any Ugandan citizen a right to settle in any area and actively participate in national politics – rejecting any form of political representation by the immigrants (meaning that elections are a particular flashpoint for ethnic conflict – during the 2001 election three people were killed in scuffles that ensued and over 24 people arrested in connection to this killing resulting in continued resentment among the two tribes).¹⁰⁷ There are persistent claims that the Bakiga are being backed by powerful people from the government, and Banyoro continue to call for their numbers to be reduced in Kibaale.

Masindi District: District vs. government

In Masindi District, local officials have contested the gazetting of land for wildlife conservation areas such as Murchison Falls National Park and Bugungu and Karuma wildlife reserves, as well as government allocation of substantial parts of other sub-counties to allow for the establishment of the Kinyara sugar factory and other privately-owned ranches, both of which processes led to the eviction of a number of people who still claim they have not been compensated.¹⁰⁸ Tensions over these developments continue to fester, fuelling more generalised Banyoro discontent.

¹⁰⁶ 'Land wars threaten 30 districts', *New Vision*, 24th April 2009.

¹⁰⁷ Most recently a group of 200 Bunyoro politicians and leaders met with President Museveni to discuss this issue among others, leading to assurances by Museveni that their concerns will be addressed. See 'Museveni districts breeding tribal wars?', *The Independent*, 26th June 2009.

¹⁰⁸ 'Bunyoro land woes need quick solutions', *New Vision*, 13th February 2006.

Buliisa District: Balaalo vs. Bagungu

The increasing settlement of Balaalo in Buliisa District has been highly contested by the indigenous Bagungu – as already discussed in this report (Section 3.1.2). Claims by Balaalo that they had purchased land have been refuted and Bagungu hostility is exacerbated by widespread perceptions across the Albertine rift that the Balaalo herdsmen are being backed by high-ranking officials in government to buy up land close to Lake Albert with hopes of being compensated in the near future as a result of the ongoing oil developments in the region. Following court proceedings also discussed above, the conflict may now be latent, but the rivalry and competition and wider mistrust of Balaalo should not be underestimated.

Other conflicts in Bunyoro have included the following:

- Conflict between the Bagungu and the Congolese Alur in 2006 over grazing land. Bunyoro's proximity to the DRC and open access to Lake Albert has made free movement of Congolese into Uganda much easier.
- Fights over petty theft among fishermen from both Uganda and Congo, though this is often amicably resolved and contained on a small scale.

Bunyoro's renewed hopes: Oil prospects in the region

Attempts to restore Bunyoro's former glory have been given a huge boost by oil discoveries in the region. Media coverage of oil findings in Bunyoro and the extensive exploration undertaken by both Tullow and Heritage have heightened the expectations of local people – and local district leaders, MPs and representatives of the Bunyoro Kingdom itself have all played a role in exacerbating these expectations still further. Debate over the appropriate local share of oil wealth is more focused in Bunyoro than in other affected sub-regions, although claims as to the proper percentage, as well as distribution between districts of the sub-region and both local government and the kingdom, vary and no common position is apparent as of yet.¹⁰⁹ Managing these expectations and the potential for divisions between different stakeholders at a local level, as well as between Bunyoro and central government/other regions, requires particular attention in the months and years to come.

4.1.3 West Nile sub-region

West Nile comprises Adjumani, Arua, Koboko, Moyo, Nebbi and Yumbe districts. The region neighbours Sudan to the north, the DRC to the west, Masindi to the south-east and Amuru/Gulu to the west. In the colonial era, West Nile was used as a labour reserve for cash-crop production. During British rule, boundaries in the region were made along tribal lines (*Alur* in the south; *Kakwa* in the north-west; *Madi* on both sides of the river Nile; and *Lugbara* in the central area and west of the Nile).¹¹⁰

People from West Nile have suffered ongoing effects from the atrocities committed during the regime of Idi Amin, who came from the region. Following Amin's overthrow in 1979, revenge attacks by the Uganda National Liberation Army (UNLA) led to widespread brutality against the people of West Nile, characterised by rape, torture, and total destruction of infrastructure such as cotton factories and schools. A majority of the West Nile population was forced into exile in neighbouring Sudan or the DRC (then Zaire), but soon resistance groups against the Obote regime returned, namely the Uganda National Rescue Front (UNRF) followed by the Former Uganda National Army (FUNA). In 1986 the NRM managed to bring about relative calm in West Nile, with many people in exile returning to their homes. However, this calm was short-lived due to the arrest of key UNFA leaders, and renewed tensions were experienced in the region.

By the mid-1990s, a second wave of insurgency was organised from bases in the DRC and Sudan. These included the West Nile Bank Front (WNBFB) and the reconstituted UNRF (UNRF

¹⁰⁹ See footnote 78.

¹¹⁰ L. Mark (2005). *Inside West Nile*. Kampala: Fountain Publishers.

II). The WNBFF used ruthless tactics to recruit its members from Koboko and Arua, leading to a withdrawal of community support for the rebellion. Internal wars in Sudan and the DRC finally left these groups with no option but to look for peaceful means of returning to their homes. With the breaking up of the WNBFF, UNRF II also signed a peace agreement with the government in December 2002 which saw the rebel group dissolved and a number of ex-combatants joining the UPDF.¹¹¹ Despite these settlements, the armed conflict between rebel groups and the government has left long-term effects.

Effects of war on West Nile

War in West Nile left a devastating impact on the physical and social infrastructure in the region, destroying local services, transport routes, economic assets; and disrupting trade between the region and South Sudan, generally leading to a collapse in investment.¹¹² West Nile remains one of the most disadvantaged regions within Uganda. Many of the younger generation missed out on basic education due to the upheaval of displacement, and the region is characterised by low development indicators and lawlessness. A further significant legacy of armed conflict is the extreme proliferation of small arms, as well as the high number of ex-combatants and remnants of armed groups.

Ethnic and inter-community conflicts

A number of ethnic and inter-community conflicts also exist in different areas of West Nile. Examples of these include:

- The Alurs of Uganda and the Lendu of the DRC have a similar ethnic heritage. Nebbi District has recorded and sought to mediate a number of incidents in which the two groups have fought against each other. Tension has arisen due to the Lendus' desire to establish themselves in Uganda, disregarding administrative borders and instead emphasising an ethnic nationalism. With increasing numbers of the Lendu tribes settling in Nebbi, there is an increase in pressure on resources and the likelihood that this conflict will continue.¹¹³
- Historically, Alur was a mono-tribe under the rule of a paramount chief. To date, the Alur and sub-group Jonam are divided with the latter paying allegiance to their own installed chief and refusing to recognise the formerly installed paramount chief. With the arrival of oil in Jonam areas, tension between these two groups appears to be mounting.¹¹⁴

Porous borders and refugee populations

Due to its proximity to the borders of Sudan and the DRC, the region hosts a large refugee population from both countries' wars. Some of these refugees have over the years been able to do business in various economic spheres and settle well – a source of resentment against them among local people. The increase in population has at the same time led to competition over social and economic resources. To date overall, such tensions are often on a small scale and easily contained.¹¹⁵

Impacts of oil

Oil exploration in parts of West Nile such as Nebbi and Arua is already showing signs of bringing up new conflicts, as well as heightening some of the tensions highlighted above. As with the South-western sub-region, Uganda's relationship with the DRC overall has particular ramifications for West Nile where border tension is already apparent. Reports of speculative land buying related to

111 Government of Uganda and Uganda National Rescue Front (June 2002). *The Peace Agreement between the government of Uganda and the Uganda National Rescue Front II*. Yumbe, Uganda. Available at http://www.beyondjuba.org/peace_agreements/Peace_Agreement_btwn_GOU_and_UNRF_II.pdf; also see Refugee Law Project (June 2004). 'Negotiating peace: Resolution of conflicts in Uganda's West Nile Region', *Working Paper*, No. 12. Kampala: RLP.

112 West Nile Development Conference, concept paper, June 2005. Available at http://uganda.ded.de/cipp/ded/lib/all/lob/return_download/ticket_g_u_e_s_t/bid,1532/no_mime_type,0/-/WNDC_Event_CP_final_15_June_2005.pdf_1200_dpi.pdf.

113 International Alert interviews in Nebbi, July 2008.

114 Ibid.

115 Refugee Law Project (November 2008). 'There are no refugees in this area: Self-settled refugees in Koboko', *Working Paper*, No. 18. Kampala: RLP.

oil by newcomers frustrating local communities are common in the region. Claims that Balaalo herders have been occupying land are especially pronounced in Arua District, and have generated some political turmoil.¹¹⁶ Further detail is given in the quotes from the region included in Section 4.2, but it should be noted that the overall history and the high proliferation of arms in the region make managing any oil-related conflicts particularly important.

4.1.4 Amuru District/Acholi sub-region

Amuru District is a new district only created in 2006, and was formerly part of Gulu District. Amuru is bordered by Sudan in the north, Gulu District in the east, Masindi in the south and Arua in the west.

For more than two decades, Northern Uganda has suffered violent conflict as a result of the LRA rebellion. It is estimated that over 1.8 million people were displaced into IDP camps, and forced into dependency on humanitarian assistance. The war has left a devastating legacy with Northern Uganda scoring low on development indicators,¹¹⁷ and persistent feelings of marginalisation, mistrust and resentment of government particularly over land issues is common among Northerners.¹¹⁸ Since the inception of the Juba peace talks, the region has however enjoyed relative peace and security, with large numbers of IDPs returning to their homes, and new signs of economic recovery – even as LRA activity continues to cause chaos in the DRC.

Land conflicts

A big challenge facing the recovery process is the lack of basic infrastructure in return areas. At the same time, new conflicts associated with IDP return are coming up, especially land boundary disputes. Like other districts in the Acholi sub-region, Amuru has suffered the dual effect of insurgency and the displacement of its people into IDP camps. UN OCHA 2007 estimates indicate a population of 260,271 people in Amuru District had been resettled in IDP camps and were still relying on food from the World Food Programme (WFP).¹¹⁹ As in other districts, community-level land conflicts are rife.¹²⁰ Communities in Amuru have attributed their fear of returning to their homes to the lack of formal dispute resolution in land issues. While state mechanisms are especially weak in new districts such as Amuru, traditional structures have also been undermined by the years of conflict.¹²¹ Land is communally-owned, without titles. Reclaiming the land without maps becomes contentious and a cause of tension and conflict.

There are other instances of land conflicts arising from interests expressed by investors in the large tracts of land in Amuru District. In 2006 the Madhvani Group of companies presented a joint proposal between the Madhvani-owned Amuru Sugar Works and the government to build a sugar works on 40,000 hectares of land in Amuru.¹²² This proposal has since become the subject of a long-running controversy, with local people and politicians objecting to the company's approach which was seen to be directly through central government and over the heads of local leaders and communities, leading to stalemate.¹²³ As part of ongoing debate about this proposed investment, people of Acholi have urged for proper channels of land purchase which should involve engaging all stakeholders and partnerships with local communities before any investment plans are undertaken, particularly where large tracts of land are concerned.¹²⁴

116 In 2008 the RDC of Arua District was forced to resign by the population on suspicion of conspiring with the pastoralists. International Alert interview with Nebbi NGO Forum, July 2008.

117 Government of Uganda (September 2007). *Peace, Recovery and Development Plan for Northern Uganda, 2007–10*. Kampala: GoU.

118 See International Alert (2008b). 'Building a peace economy in Northern Uganda: Conflict-sensitive approaches to recovery and growth', *Investing in Peace*, Issue No. 1. Kampala: Alert.

119 UN OCHA (July 2007). 'Amuru District: IDP camps and settlement sites'. Available at <http://www.reliefweb.int/rw/RWB.NSF/db900SID/JOPA-76BBMJ?OpenDocument>.

120 'Uganda: Land rows reverse settlement', *IRIN*, 17th March 2009.

121 Oxfam (September 2008). *From emergency to economic recovery: Rescuing Northern Uganda's transition*, Oxfam briefing paper. Kampala: Oxfam.

122 'Kakira Sugar to set up factory in Amuru', *New Vision*, 18th July 2007.

123 International Alert (2008b). Op. cit.

124 International Alert (2009). *Contributing to a peace economy in Northern Uganda: A guide for investors*. Kampala: Alert.

Other conflict dynamics

The effects of war on the people of Amuru and Northern Uganda in general have had lasting social and economic implications. Most of these have the potential to destabilise the local population unless addressed. They include food insecurity, breakdown in the social fabric caused by long years of displacement, an increase in domestic violence, low levels of education and labour skills among young people, as well as a pervasive frustration with the government particularly as regards its role during the conflict and the notable failure of state development programmes in the region to deliver to date. The politically-charged sub-region is likely to face an increase in tension over all of these issues in the run-up to the 2011 elections.

Impacts of oil

The arrival of oil in Amuru District threatens to exacerbate anxiety about land in the area, as well as mistrust of investors and the political process in general. Speculation over land at a local level also looks likely to increase. Politicians have already moved to halt sale of land until the oil situation is clarified.¹²⁵ Lack of information both on the part of the community and local leaders is also a major source of tension, leading to all kinds of rumours circulating about the oil, the timeframe for its production, the role of government, etc., and leaving district leaders undermined and disempowered as is indicated in details from the survey in Section 4.2.

4.2 Current perceptions on oil and conflict risks in oil-affected districts: Findings from qualitative survey

What follows are the findings of a qualitative survey commissioned by Alert in five districts (Arua, Amuru, Bundibugyo, Kanungu and Hoima) along the stretch of the western rift valley in Uganda. The purpose of the survey was to explore the interplay of conflict and the discovery of oil in the localities affected through seeking the views of district and local-level stakeholders, their arguments and positions, and their interests and expectations in relation to oil. The survey used FGDs with different socio-economic groups in each district; as well as KIIs with district officials and other leaders – quotes included below from these discussions indicate which category of respondent and their location. The survey methodology is discussed in further detail in Annex 1. Findings were clustered and are presented as the spectrum of potential conflict risks associated with oil. These are: political, land-related, economic, social and environmental, as well as those related to communication between oil companies and communities. Other important perspectives on conflict from the survey relate to community views on Uganda's relations with its neighbours especially the DRC; these findings are included in Section 5 of this report.

Perspectives in the different districts are influenced by the fact that some prospecting efforts (e.g. in Bundibugyo and Kanungu) have been sporadic, often lasting short periods, compared to prospecting in Arua, Amuru and Hoima, which has been more intense. There are also variations of understanding within the hierarchy of the district administration, and between district officials and communities at large. As a result there is an uneven spread of awareness about the oil industry across the affected area. Indeed, taken as a whole, the time period since prospecting started is too short for effective assessment of impact. Nonetheless, the survey was able to gather local perspectives on impacts recognised by the communities to have the potential to create or exacerbate conflict, raising “red flags” over likely future conflict dynamics related to the various impacts of oil as companies move from exploration to production.

4.2.1 Political impacts

Both communities and their leaders have ideas about how they wish to see oil wealth distributed in Uganda – these have already been summarised in Section 3.1.1. Communities across the area also

¹²⁵ 'Biggest oil well found in Amuru', *Daily Monitor*, 14th January 2009

criticised their political leaders, expressing concern that they would fail to channel the potential benefits of oil to the locality in question, due to corruption or other forms of abuse of power.

‘A bad politician won’t allow balanced regional development [...] If politicians are good leaders, management of the oil and its proceeds will benefit everyone, but if the leaders are bad, the opposite will happen’. (KII, Kyangwali – Hoima District)

‘Yes, oil issues influence our political perspective [...] Good leadership is important’. (Business community, Kihhihi – Kanungu District).

In some communities, the general opinion is that leaders have so far failed to advance people’s interests.

‘Politically, the local people now think their leaders are weak because they cannot push the government (on oil matters) in their favour [...] The MPs are already disorganising by misinforming the local people on oil. It is difficult for us to convince our people to surrender land for oil exploration’. (KII, Amuru District)

‘I [hate] my area MP. He has not come to sensitise us on oil issues. I blame him for neglecting us. He has conversed with these oil companies to come and kill us [...] Some of these political leaders are hiding the truth from us about the oil’. (Farmers’ group, Arua District)

Expressing the other side of this coin, some political leaders reported feeling disempowered in dealing with the oil companies, because they seem to draw their authority from above either at executive or ministerial level. A particular case in point is in Amuru District.

‘Under normal circumstances, the oil companies should have come to the district authorities to seek permission; maybe permission was sought from park authorities or central government because oil exploration activities in Amuru District are taking place in the park’. (KII, Amuru District)

‘All MPs, local leaders [and] cultural institutions need to give their views properly on this issue. In essence each must have the capacity to bargain for a fair share for their areas, regions and districts from the central government, either through a memorandum or framework that facilitates the presentation of their case’. (KII, Amuru District)

The various security agencies involved – External Security Organ (ESO); Regional and Internal Security Organ (RISO) represented at district level by District Internal Security Officers (DISOs); and the Chieftancy of Military Intelligence (CMI) – are reported to wield more authority on issues related to oil prospecting within the communities than political leaders, despite having no technical competence in many of the related policy areas – and this is further undermining local officials in some places.

The survey revealed that in other cases, local officials acting as “gatekeepers” to company-related opportunities has led to an increase in corruption and consequent mistrust of local leadership.

‘There are people who would approach the oil companies and they would give the job and the only condition remaining would be the LC letter introducing you to the oil company, because it was always the final determinant of your getting the job or not. The LCs would ask for amounts ranging from Shs 50,000-100,000 or things like goats, or even refuse to give you the letter’. (Fisherman, Buhuka-Kyangwali – Hoima District)

‘All leadership has been proven to be corrupt, right from LC1 to the executive [...] Now more greedy people are interested in leadership positions at local government; they say oil is money, so they will do anything to remain in leadership, or to get into leadership, leading to undemocratic elections by bribing voters’. (BMU Committee, Nsonga – Hoima District)

‘This is beginning to breed conflict between local leaders, Heritage Oil and the local people, because the designated LC2 chairperson refuses to give local people recommendation letters for work [...] In addition, those that opposed the LC2 (now the contact liaison officer for Heritage Oil) during elections time, also do not get recommendation letters for jobs [...] We are waiting for the next election to have our say’. (Pastoralist, Nsonga-Kyangwali – Hoima District)

‘I think some of the political leaders might be replaced, for instance some of the LCs are behind some of us not getting jobs, so we are planning to replace them [...] Even if the oil is found or not found, all these people will be removed. We know how to handle these political leaders; they have to come back to us to get power’. (Pastoralist, Rigbo – Arua District)

Particularly in Hoima and Amuru districts, survey respondents spoke of the increased presence of security personnel from different state agencies, as well as private security companies hired by the companies, as a factor contributing to tension and insecurity at the community level. The potential for negative incidents to arise from this increased militarisation was highlighted.

This situation is not helped by the fact that political leaders are at the same time struggling amongst themselves to get to grips with the process of change that oil activity has initiated.

‘Politically there is conflict between leaders, since each one of them wants to show us that they know more about Heritage Oil than the other’. (Pastoralist, Nsonga – Hoima District)

‘Political rivalry will be serious or worsen in the long run. However, this [competition] will be good if better leaders come up within the community as a result of this pressure’. (KII, Amuru District)

4.2.2 Land conflicts and oil

One of the most profound impacts of oil discovery that cuts across all districts is an apparent escalation of land conflicts associated with oil, as has already been discussed in previous sections of this report. In this light, it is important to acknowledge the impact of wider trends, such as extremely high population growth, which is fuelling a change to traditional lifestyles in many areas and leading to land scarcity, in particular by the subdividing and fencing of land that was formerly available for open grazing. Conflicts related to this exist across the country, with oil exploration introducing a trigger factor that can cause such conflicts quickly to build to dangerous levels.

Most of the land belonging to the communities surveyed in this study is held as customary land in the form of communal tenure. Within the last five years, extensive individualisation of customary land creating large chunks of registered land in the form of leaseholds has taken place in most of the areas where oil prospecting is taking place. This transition from customary to registered tenure is seen to be being driven to a greater or lesser extent across the survey area by the discovery of oil, as individuals scramble to strategically re-align themselves and reap from the anticipated demand for land in the region. The trend is particularly apparent in Hoima District, where leaseholds are easily obtained from the District Land Board, and where previous grazing areas such as Kyangwali and Tonya have now ceased to exist.

In Amuru District, a number of respondents asserted that the chance for land conflicts to escalate is heightened by the fact that land tenure relations are already fragile due to displacement and IDP return rather than the discovery of oil, which is a recent event.

‘Let me be very clear, discovery of oil in Amuru never brought land conflict but our being in the IDP camps brought a very big land conflict in Acholiland. Before the camps the people of Acholi were very peaceful and they were sharing the land with their relatives and their children, etc., but when in the camp they learnt that land is the only wealth left, today you even find a father chasing away the son from the land which used not to be there; people are killing each other’. (KII, Amuru District)

Discovery of oil in Amuru has also precipitated boundary conflicts within families and between clans, between sub-counties (Amuru and Pabbo; Anaka and Alero), and between districts (Nebbi and Amuru; Gulu and Amuru over Oroko). Inter-district land conflicts that were already in existence before the discovery of oil are also still continuing, e.g. Arua and Yumbe; and Terego and Maracha have claims over parts of Rhino camp in Arua; Nebbi has quarrels over Purongo sub-county in Amuru.

The process of gazettement and degazetting wildlife reserves has been characteristic to transforming tenure in the Albertine Rift over the years, and most oil prospecting is taking place in gazetted areas or degazetted areas that now fall under state stewardship as a result of hosting endemic bird species, wildlife and bio-diversity.¹²⁶ Often, the communities that were supposed to benefit from the degazetting were either unaware of the processes at hand or not in a position to take over, manage and direct tenure relations on lands that had been officially reverted to communities. The situation in some cases has reportedly been exploited by local officials for their own personal gain.

‘When oil was discovered, it suddenly emerged that all local leaders had land in this area, right from the LC1, LC2, parish chief, sub-county chief up to the top at the district. This land was originally a game reserve and government gave it to the local people, but before we could realise, the land had been individually apportioned amongst local leaders’. (Fisherman, Buhuka-Kyangwali – Hoima District)

‘The local people have been quarrelling with the local leaders who sell customary land; when a person would buy land, they would forbid people from grazing their cows or goats and even picking firewood, yet before these transactions, such restrictions never existed; it is only that the issue of oil exploration is now heightening the conflicts’. (KII, Hoima District)

‘Before oil we never had any land conflicts; we never had fences. We were free to cultivate a few crops, graze our animals and pick firewood, which is not possible now. Before oil, the only land transaction we had was giving the LC Shs 5,000 and he would show you where to build a house. There was no selling and buying of land in this area; land was free’. (Fisherman, Buhuka-Kyangwali – Hoima District)

Another dimension is that people perceive land as being sold to outsiders – whether businesspeople that are seen to have links to government; Balaalo herdsman; or Congolese.

‘The increase in numbers of people coming in has led to the increase in price for land. The land these people are buying was originally used for grazing by the local people, but local leaders have started selling it at very high costs. They sell both to people from outside

¹²⁶ These have been changing stewardship status over the years, and now mostly fall under the custodianship of the Uganda Wildlife Authority. In Amuru District, this occurred in the 1970s during Idi Amin’s regime. In Purongo sub-county, in Tonya – Hoima it occurred in 2002, while in Kanungu, parts of Kihihi sub-county and in Bundibugyo, parts of Ntoroko sub-county were affected.

the village and those internal who can afford. The people who occupied land before oil exploration are scared and worried what will happen next'. (KII, Kyangwali – Hoima District)

'There are people who come with papers and recommendations from central government claiming to own our customary land; we usually do not know what to tell such people'. (Community leader – Bundibugyo District)

'The population greatly increased in 2000-03 with the influx of Congolese refugees, these immigrants have greatly reduced the land [...] All who came as refugees ended up getting land; some got it by buying from local councillors and from ordinary people, so they have become natives [...] The price of land increased'. (Fisherman, Kanara – Bundibugyo District)

'The Balaalo are coming from Kiboga, Buliisa and even people from Congo. The Balaalo have led to conflict over grazing land. When they come to an area they buy a small piece of land for building houses and they start grazing their animals anyhow; this has led to a need for proof of ownership of land. Currently, half an acre of land is selling at Shs 6,000,000'. (KII – Arua District)

'We have seen bigshots coming from Kampala and certain other cattle keepers have also come to acquire land [...] There was almost a fight between local people and cattle keepers'. (KII – Bundibugyo District)

'We don't know the procedure for reporting a land conflict; even then the people we would run to for assistance are the people with land titles. All conflicts are being fuelled by local leaders; they sell land to Congolese, Rwandese and people from outside our village'. (Fisherman, Buhuka-Kyangwali – Hoima District)

Lack of information provided by either government or companies has further fuelled rumours of an impending “takeover” of land (land grabbing) by the central government or its agencies. This is a suspicion that has been hanging over Acholiland for many years, for instance, finding new expression during the return process with the arrival of oil in Amuru.

'There is wrong political information being given by our politicians on the radio, directing that land is the only wealth left. Therefore if investors come to grab your land, spear them. You know what happened? No investor came; the people of Acholi are spearing themselves, not because oil has been discovered, but [because] the land conflict was brought wrongly by politicians who misinformed voters [...] Politicians need to go back to the people and reverse what they said'. (KII – Amuru District)

'There is land grabbing by the rich and inter-clan conflicts over ancestrally owned land, but there is silence [about oil discovery], which is the root cause of this. We only see trucks entering and coming out of the area'. (KII – Amuru District)

Behind the scramble for land in the oil-affected districts, are assumptions that the value of land is increasing and that there will be future compensation from oil companies prospecting in those areas or from government. Some members of the communities where oil prospecting is taking place have already been compensated for access if the drilling wells are located in their land.

'After Heritage carried out its surveys and it was established that the oil wells were actually in people's settlements, the people were asked to vacate and were compensated'. (KI – Hoima District)

'Heritage has actually compensated all the people who were told to vacate their land because a well or some form of permanent drilling has to take place on their land; except for one person who is saying that the amount being offered is inadequate, the other three people did not complain [...] The community is full of uncertainty, especially should they be asked to vacate; questions like: what amount of land do these companies need to operate, when are they starting to operate, what compensation procedures will be followed? Those are the things people are asking themselves'. (KII, Kyangwali – Hoima District)

'There are conflicts between the local people, local leaders and Heritage: there are people who come with documents saying they purchased land in a particular area and their motive is to get compensation from the oil companies. This has resulted in conflicts between the local people and such individuals'. (Fisherman, Buhuka-Kyangwali – Hoima District)

'The community fears that they might be asked to vacate because they do not know the exact amount of land the oil company needs to operate; there is lack of information on the scope of operations, commencement of operations, where they will go when asked to vacate and how they will be compensated'. (KII – Hoima District)

In addition, communities raised concerns about the prospect of forceful removal from the land to make way for oil exploration, in return for compensation that is not equivalent to the value of the land or adequate for acquiring land in another location.¹²⁷

'Peoples' land is being given to oil companies for development so people are being forced away [...] They are given meagre compensation which cannot sustain them; if they were given millions to go and settle elsewhere it would be good, but the money is not sufficient and as such there are many complaints from residents'. (KII – Hoima District)

'When you are removed from your land it becomes very difficult to get another place and this can cause conflict, as some may resist leaving unless the two parties can agree amicably'. (KII – Hoima District)

4.2.3 Economic impacts

With regard to likely economic impacts of oil it is clear that above all, people have high hopes and expectations, as well as fears and anxieties.

'I think people are appreciating, people are happy [about the discovery of oil], and when they start mining the oil and the district and sub-county starts getting their percentage, then it is going to change the way of life of the people of Amuru, because they can utilise this percentage to improve education standards, farming, etc'. (KII – Amuru District)

The major impact visible in all communities where prospecting is taking place is the tremendous improvement in public infrastructure and social services undertaken by central and local government, as well as by the oil companies themselves, in support of oil-prospecting activities. These include opening up new roads and improving old roads, and building community health centres, clinics and schools. Improved public infrastructure and utilities has spurred an increase

¹²⁷ To date, relocation or removal of people from affected areas has been fairly minimal, though this could change as oil discoveries and plans for production develop. See 'Ninety families shifted ahead of oil testing', *Daily Monitor*, 9th March 2009.

in local economic activity, enabling increased movement and demand for goods and services, even as population numbers have also swelled. Leaders in the districts anticipate that previously closed communities and villages will now open up to rapid growth.

'It will bring some businesses in Purongo and Amuru as a whole because people who come to mine the oil will want supplies (sugar, tea, etc.), so it will bring business [...] Other businesses are likely to boom, since there will be a market for commodities such as food crops'. (KII – Amuru District)

Some of the new infrastructure has, however, been built on individuals' lands, with claims that customary or communal rights have been violated without compensation, leading to grievances. The potential for conflict is especially heightened when the individuals decide to enforce their rights in a manner that excludes community members. At the same time, such social services and local infrastructure as has been built is designed to facilitate oil-prospecting activities, and while appreciated in those specific localities, does not meet the demands and high expectations (or needs) of local people in the wider area.

The second most important effect of oil prospecting in the local communities is the creation of casual employment, from which some individuals have been able to benefit by working as labourers, porters, drivers, etc. People who have managed to obtain such jobs have improved their income, which in turn is boosting local demand for goods and services, as the local economy increases its activity.

'The people who were given jobs were able to prosper; they built iron sheet houses; they would earn Shs 5,000 shillings per day, although they would work from 6 am to 6 pm. The workers were not allowed to complain and any person who would complain would be sacked and many were dismissed. It took the intervention of the LC3 office to restore order'. (Community leader – Bundibugyo District)

'There are changes; people built iron sheet houses, people bought cows [...] The rampant theft in the area reduced; parents got money to pay school fees for children; we got the first Pajero in the area'. (Pastoralist, Rwebisengo – Bundibugyo District)

'I am sure many parents will be able to take their children to school; health indicators will improve and people will have money that they will get through productivity'. (KII – Hoima District)

However, local businesspeople who have provided services for the oil companies in some places have complained that their payments were delayed or have yet to be made. At a national level, there have been complaints that companies have favoured foreign firms over local contractors to provide some services.¹²⁸

'Some people have not been paid up to now for murrum that was dug from their plots; [they] are very angry [...] I request whoever is concerned in the oil company to pay these people before war erupts'. (KII, Arua District)

'Stones were extracted from my land and up to now I haven't been paid. Now I hear they want to build a pit latrine on my land'. (Pastoralist, Rigbo – Arua District)

Across the study area, people complained that neither the recruitment processes for the oil company jobs nor the terms of employment were fair or transparent.

¹²⁸ At a national level some firms have complained that companies are favouring foreign firms over local providers in sectors such as transport. 'Service providers cry for oil money', *New Vision*, 27th October 2008. See also 'Truck owners miss oil contracts', *New Vision*, 23rd October 2008.

'I was given a job as a casual labourer, but after one month I was told to stop working and nobody gave a reason why'. (Business community, Rhino Camp – Arua District)

'They employed a few people from our village, but the way of paying was not good; a person would work for six months and they pay you for only two months. Because of that people started refusing to work for them and they also started bringing workers from elsewhere [...] The interaction has not been that much because even the people they employed here were not many'. (Fisherman, Buhuka-Kyangwali – Hoima District)

'The majority of the people they employed were from outside the district or the sub-county. They dismiss you without explanation'. (Farmer – Kanungu District)

'They avoided employing local people so much, although it was the responsibility of the local leaders to carry out local recruitment. Corruption to get employed becomes the order of the day; the oil companies weren't involved in the recruitment scandals. It was the local leaders, because the companies asked them to recruit'. (Pastoralist, Rwebisengo – Bundibugyo District)

'They are even getting casual labourers from outside our district. They should employ our people; this would build the relationship between the company and the community [...] For all the jobs that do not require expertise, the district should be given priority and if there is any training priority it should be given to the locals'. (KII – Amuru District)

The findings of the Alert study on employment issues should be seen against a wider background of misunderstanding and heightened expectation about the likely employment benefits of oil, which is further confused by media reports giving mixed messages on the issue.¹²⁹

There has also been a downside to the local economic growth, with inflationary impacts, including a general rise in the cost of living for nearly all the communities where oil prospecting is taking place.

'Fish is very expensive, firewood is expensive, transport is expensive, and everything has become more expensive ever since the oil people got here'. (KII – Hoima District)

Specific income groups also report having been negatively affected by the halting of livelihood activities that are dependent on natural resources, such as fishing, to allow oil prospecting to take place.

'People are being stopped from fishing, so fish here has become very expensive and the little they get, the government takes it all for export, so there is a shortage of fish [...] In the end [there is] unemployment, especially for the fishermen'. (KII – Hoima District)

'The deposits of oil blocks oxygen supply to the fish, leading to suffocation of the fish and others migrating to other areas; this has reduced the supply of fish greatly'. (KII – Hoima District)

'They should communicate to the fishermen about prohibited areas early enough to allow them to plan their work properly'. (KII – Hoima District)

¹²⁹ See for instance government statements in 'Leaders urge Ugandans not to target oil shares', *Daily Monitor*, 21st July 2008; 'Bunyoro oil won't be a curse, says Kajura', *Daily Monitor*, 1st August 2008; and 'Gear up for a career at oil wells in Western Uganda', *New Vision*, 7th October 2008. See also 'Service providers cry for oil money', *New Vision*, 27th October 2008. For Tullow Oil's prediction that 'once Uganda's petroleum extraction machinery starts to roll in earnest and at full scale, the industry will be employing about 10,000 people', see 'Uganda could reap \$5 billion annually from oil exploration', *The Daily Monitor*, 8th December 2008.



Fishermen on Lake Albert report disruption to their livelihoods as a result of oil activity.

© International Alert

It is expected that there will be increasing disparity between household incomes, with employment related to oil activities benefiting some, while others lose out.

‘Oil is considered a very lucrative business that creates a gap between people; some have become very rich and the others very poor. This gap has the potential to result in conflict’. (KII, Kyangwali – Hoima District)

‘We only see trucks entering and coming out of the area [...] There is no hope economically if this kind of relationship continues; no economic benefits as yet and there is no hope’. (KII – Amuru District)

Respondents also speculated about the location of a future oil refinery, seeing this as key in determining the extent to which an area could benefit from oil longer-term. Every district advocated for the refinery to be built close to home – and the issue clearly has the potential to become a source of division and competition among localities.

‘I think where oil will be refined is where a lot of development will take place. If oil could be refined in Amuru, then development will be seen; without that then it won’t be possible’. (KII – Amuru District)

‘They want to place the refinery in Mbarara; that is to deny us the development that is supposed to happen in our area due to oil discovery [...] The oil refinery should be built in our area’. (Business community – Arua District)

4.2.4 Social impacts

A profound social effect of oil prospecting has been the opening up of communities that were previously closed to external influences. This is particularly apparent in Arua, Bundibugyo and Kanungu districts.

A further major social impact results from the influx of migrants from other areas of Uganda and the DRC into the localities where exploration is taking place.

‘The Balaalo are coming from Kiboga, Buliisa and even people from Congo [are coming]. The Balaalo have led to conflict over grazing land. When they come to an area they buy a small piece of land for building houses and they start grazing their animals anyhow. This has led to a need for proof of ownership of land’. (Community leader – Bundibugyo District)

‘There are very many people coming to our village; everyday you see a new person and these people are able to construct a house in two days. Although as local people we do not know much about these people, the local leaders are aware. There are instances where local leaders have registered especially Congolese and records show that they also presented letters introducing them from their areas of previous settlement, which we all know is not true. As we speak right now, the population of non-natives has overrun the population of natives and these people have started assuming positions of responsibility’. (Fisherman, Buhuka-Kyangwali – Hoima District)

‘The number of immigrants has grown; people from neighbouring sub-counties have come into the area. The number of bars, hotels, lodges, etc. has increased’. (KII, Kyangwali – Hoima District)

The influx of immigrants has not only increased population numbers and boosted demand for local goods and services, but has also apparently heightened tribal and cultural sensitivities and prejudices. Negative comments on incomers were expressed by those interviewed across the affected areas, with people reporting tension focussed on access to jobs and land.

Migration was also cited as the cause of increasing moral degeneration and socially unacceptable behaviour such as prostitution. In other cases, respondents pointed to the possibility of a rise in HIV and AIDS as a consequence of oil-exploration activities. There is no statistical evidence of this to date, but it was eloquently voiced in almost all community meetings and is clearly a perceived risk.¹³⁰

‘Prostitutes have come to the area; a number of different tribes coming in have led to changes in behaviour such as dressing, life style, people drinking mineral water, etc’. (KII, Kyangwali – Hoima District)

‘A lot of prostitutes came from as far as Congo, Fort Portal and this could have consequences of HIV the in future’. (Community leader, Bundibugyo District)

‘Very many girls get jobs very easily through an approach of give me and I give you [...] Some girls even end up getting married temporarily [...] We do not know the HIV status of these men and therefore the status of these girls is also questionable’. (Opinion leader, Kihihi – Kanungu District)

4.2.5 Environmental impacts

It is important to note that in marginalised areas, local people are usually more dependant on local resources – most obviously relating to land availability, but also soil fertility and the ability of that land to support crops and livestock, access to water and fuel, fish stocks and other “ecosystem goods and services”. Increasing in-migration leads to further overuse and scarcity of these resources, which is then exacerbated by any increase in poverty levels (poverty being closely linked to dependence on the natural resource base). This is a potential source of conflict. The different areas covered by the survey differ in the availability of these goods and services. Some areas are highly fertile and land is at a premium. Others are largely infertile and marginal – not

¹³⁰ Perceived threat of an increase in HIV and AIDS related to the behaviour of “other” social groups has become a common source of rumour and prejudice influencing conflict dynamics across the Great Lakes Region. See International Alert (2008). Op. cit, p.20.

capable of supporting either livestock or crops long-term (in particular along the shoreline of Lake Albert). This explains the dependence of the communities in these areas on fishing and the lack of potential for introducing viable alternative sources of income based on agriculture.

Views gathered in the survey indicate that communities are concerned by the potential environmental impacts of oil and would like better information about early planning to deal with such impacts.

'We have to request the companies that are prospecting to plant trees in the district, because this is not a one-day thing but [...] is going to take many years [...] If companies plant trees then they will mitigate the environmental impact that comes with oil discovery and mining'. (Farmers' group – Hoima District)

'Some money should be preserved to take care of the side effects of production'. (BMU Committee, Nsonga – Hoima District)

'We told them that when they destroy trees they should replant them, and after removing murram the holes should be refilled'. (KII, Rigbo – Arua District)

'I think oil companies must protect the environment, especially air pollution, which will be dangerous to animals, vegetation and the nearby community'. (KII – Amuru district)

Confusion over whether local government officials or state security personnel have authority in relation to dealings with oil companies and their activities in the districts complicates understanding of how to deal with impacts of oil activity. This is particularly apparent with regard to who is the competent authority on environmental impact issues. In addition, district environmental officers appear unable to execute their duties with confidence in terms of engaging with the oil companies, despite the fact that they have official competence, because the companies appear to deal with the authorities beyond the local level.

'I wonder what will happen later. The more we are ignorant about the operations of the oil companies and the related effects, [...] the more it is to their advantage; they have their own environment officers who cannot talk ill of their operations'. (KII – Hoima District)

'The companies are aware of the environmental issues, but they are keeping it to themselves [...] They need to work with us; we are gazetted public officials responsible for environmental issues [...] There are bigshots involved and so the oil companies feel they are beyond us'. (KII – Hoima District)

The survey also revealed a high level of concern about waste disposal, as well as total uncertainty as to what communities or district officials can themselves do to start addressing the problem with companies.

'When you go down there (the rift valley), you find that they (the oil company) are having a lot of challenges with industrial waste disposal, but the district seems to be ignorant about this [...] There is what are called mud waters, which precedes the oil [...] They are having problems with disposing it and yet it is very toxic to the community; once poured on the grass, it dries up immediately. Yet this is the beginning of exploration'. (KII – Hoima District)

'The method of disposal of some of the wastes they generated was not good, although they explained that they would dilute those chemicals using other chemicals to avoid having adverse effects on the local people'. (KII – Kanungu District)

Some district officials complained that EIA reports had not been made available to the districts, arguing that EIAs themselves should be thoroughly informed by the views and opinions of local stakeholders. While the survey respondents did not highlight the issue, other interviews held by Alert also query the ultimate impact of oil exploitation on the important economic industry of tourism through degradation of the world-class wildlife parks in the Albertine Rift.¹³¹ Tourism is an important income factor at the community level in many of the affected areas – if negatively affected by oil this will compound loss of income to these communities. Overall, a healthy, functioning environment is especially crucial to the maintenance of subsistence lifestyles. Any damage to the environment will thus lead to an impact on livelihoods and traditional lifestyles, and potentially result in tension.

4.2.6 Relationship between communities and companies

Of the companies currently operating in Uganda, Tullow has demonstrated the greatest seriousness towards managing its social and environmental footprint in the interests of peace and development, perhaps being the company with the most long-term intentions towards operating in Uganda, and due to its high standing in its country of origin, Ireland, for its ethical business practices, including in Uganda.¹³² Company representatives generally seem committed to the idea of transparency and openness regarding their own operations with stakeholders, and while Tullow has faced challenges in setting up the right organisational structures, systems and capacities to ensure that this is achieved in practice, the company is currently in a phase of learning and adapting, and seems open to ideas and exchange – with a newly expanded team now in place.¹³³ Tullow reports trying to do as much consultation as it can, especially with its new block, learning perhaps from previous experience. It has Memoranda of Understanding with all the districts to guide its relationships at a local level; it has opened liaison offices in both Hoima and Buliisa; and reports dealing with 100–300 stakeholders per week overall. Tullow has also experimented with other sources of communication such as media, partnerships with other organisations, and publishing information booklets. Heritage has a less developed or resourced approach to social issues, and is only now in the process of recruiting a staff member to manage its Health, Safety and Environment team which will include “corporate social responsibility”. Both companies have to date experimented with small-scale social investment projects, such as building maternity clinics, supporting alternative livelihood schemes for fishermen, and financing scholarship schemes for students from the affected areas. The smaller companies, Dominion and Neptune/Tower also report engaging in community dialogue, and have each made small social investments, such as Neptune’s funding of a public library in Arua.

Despite the advances being made by companies – whose effects have perhaps not yet been felt and which deserve to be comprehensively evaluated in a separate study – the overwhelming picture presented by the survey is of inadequate provision of information to communities by companies (compounding the lack of information provided by government), as well as very limited initiatives by companies to set up dialogue with communities in order to better understand the local context and community views.

Lack of information regarding access to the actual employment opportunities or other potential benefits emanating from company activities was highlighted by communities, districts, sub-counties and traditional leaders alike, emerging as a particular source of tension.

131 See also submission to NEMA on Tullow’s addendum Environmental Impacts Assessment (EIA) on Site 2 of the EPS, 23rd January 2009, signed by AFIEGO, ACODE, BUCODO, EarthSavers, KHEDA, International Alert, NAPE, UJCC, Water Governance Institute, WCS, WWF, p.8.

132 To date, none of the industry majors have showed a serious interest in operating in Uganda though there have been some quiet scoping missions. This may change as a result of new evidence of the level of exploitable reserves, although Uganda’s attractiveness depends on the international oil price and other factors. Without a doubt, larger international companies with more substantial experience in corporate citizenship and management of their own social and environmental “footprint” could be a positive force in raising standards.

133 Interviews with International Alert.

‘Most of the time we are in the dark about what they are doing and how they are doing it. The moment they would identify an area to test, they would immediately fence it off and security would guard it; any paths around it would be closed off. There were instances of people being beaten because of using a path that was blocked, even if the people never had any prior knowledge or warning not to use the path’. (Fisherman, Buhuka-Kyangwali – Hoima District)

‘They did not tell us when they were leaving; they left lines and holes in our gardens and up to now we do not know what to do with these holes and lines. We remained scared maybe some explosives remained in the ground’. (Farmers’ group, Kihihi – Kanungu District)

‘When they came and did what they did (planted poles, drilled holes and put things we do not understand in the holes) they should have told us whether the oil was there or not, but they never told us anything and they were working on our land’. (Opinion leader, Kihihi – Kanungu District)

The shroud of mystery that is seen to surround the oil companies is creating unwarranted fear and anxiety at the community level – fertile ground for breeding rumour and conflicts. This is evident in expectations of compensation from companies for access to land where exploration or ultimate production may take place, which in the absence of clear communication strategies from the companies is clearly fuelling speculative land purchasing and tension, as discussed above. Other tensions that the lack of effective community communication generates, already touched on in previous sections, relate to competition among local people for access to employment opportunities and a reportedly opaque practice on the part of companies in hiring and firing casual staff; perceptions that jobs are being disproportionately offered to “foreigners”; some reports of local businesspeople not being properly remunerated for their services; as well as queries and competition between sub-counties over the inevitably uneven spread of benefits such as improvement in infrastructure and service provision occasioned by the companies. Rumours about private security forces used by companies as well as the increase in state security agencies now found in the oil-rich areas exacerbate community anxiety.¹³⁴

Some communities were able to report better communication with the companies – with at least occasional community-level meetings being called, and posting of useful information, though problems associated with the use of community-level liaison officers were also raised (namely such individuals exploiting their position for personal gain).

‘The interaction we have had with oil companies was through meetings; these would be attended by representatives of the oil companies, security personnel, local leaders and technical staff; the purpose of these meetings would be to identify ways in which communities can be helped, so we would look at things like construction of roads, boreholes, schools, etc’. (Business community, Ntoroko – Bundibugyo District)

‘Before drilling, a meeting would be held to inform local people of an impending activity to enhance safety [...] Before work would commence in any location, a meeting of the leaders would be convened; because their work would involve laying cables in water and land, so there would be a need to tell people not to tamper with these cables; or for how long the lake will be out of bounds. The community liaison officer who is also the chairman LC2 would pass on the information to the local people; the security office would help in information dissemination’. (KII, Kyangwali – Hoima District)

‘The oil company alerts us about their area of operation in advance so that we are not affected in our grazing. They inform us to vacate the area where they are going to burn

¹³⁴ See also ‘Suspicion, distress as PGB seals off Amuru oil fields’, *Sunday Monitor*, 22nd February 2009.

the oil [...] They always create a passage for our cattle in case we meet their trucks on the road [...] They communicated the arrival of planes at the airfield so that when our animals scatter we are not confused about the cause'. (Pastoralist, Kyangwali – Hoima District)

Prior engagement of communities can lead to better understanding and supportive relationships between companies and communities, helping to prepare the community for the eventual transformations that will take place. Unfortunately this has not generally happened in Uganda, and instead a sense of discomfort and fear is evident in areas where the companies are present. Yet the type of information-sharing and community consultation required does not represent a threat to company interests – on the contrary, not informing communities or allowing misinformation to go unchallenged, and a subsequent increase in social tension, may well lead to future problems that will endanger company activities.¹³⁵

Some of the problems related to the way in which companies work with district leaders have already been discussed above, such as offering employment opportunities through selected local officials with the result that communities observe an increase in nepotism and corruption, as such officials position themselves as “gatekeepers” to these opportunities. In addition, companies’ close relationship with the central government has in some cases led to a complete by-passing of local structures, leaving leaders feeling marginalised and undermined.

‘They went to the central government and they were given a licence to do the exploration, so they did not come to the district to seek permission; they just came and informed us as to where they would be going to do the prospecting’. (KII – Bundibugyo District)

‘They should come to our offices. The engineers used to come and we discuss[ed] [...] our problems and how to help each other [...] The mistake is that government did not consult us earlier, neither did the oil companies’. (KII – Amuru District)

‘The oil companies must listen to the local government [...] They should talk to the political leaders and discuss the issues properly [...] There should be a constant flow of information between the oil company and the community via MPs, local leaders, etc. [...] The Acholi Paramount chief must be involved in this communication’. (KII – Amuru District)

‘These companies are doing work, but they are doing it on their own [...] When it comes to them doing any development activity, they will build a school even without consulting the district, yet these schools need teachers; health units without nurses are not sustainable’. (KII – Hoima District)

A final but significant issue is the kind of financial relationship that companies have chosen in some areas to develop with traditional institutions such as the Bunyoro Kingdom or Alur chiefs. These relationships did not emerge from the Alert survey but were flagged in other interviews and discussions including with the Kingdom itself in Bunyoro and other stakeholders. Given that these institutions’ role in society as set out in the 1995 constitution is cultural and not political, and that they have no history of service provision, it seems unclear as to why strategically companies would want to enter into such transactions. There is also already evidence that doing so leads to increased turmoil within the institutions themselves, as individuals vie for access to the resources; and with regard to the wider communities’ trust and confidence in their leaders.¹³⁶ It should be

¹³⁵ For guidance on corporate community interactions see International Alert (2005). *Op. cit.*; and L. Zandvliet and M. Anderson (2009). *Getting it right: Making corporate-community relations work*. Sheffield, UK: Greenleaf Publishing.

¹³⁶ ‘Bunyoro PM’s sacking exposes Kingdom wrangles’, *Daily Monitor*, 12th March 2009; ‘Bunyoro sacks premier’, *Daily Monitor*, 11th March 2009. According to a recent interview between International Alert and Tullow Oil, the company has now revised its practice on this issue towards more structured and strategic engagements, for example with the Bunyoro Kingdom.

noted that the creation of such opaque and unaccountable financial relationships with traditional chiefs by companies has been a significant factor in generating inter-community rivalry and violence in other oil-producing areas such as the Niger Delta.¹³⁷

4.2.7 Summary of local-level conflict risks related to oil exploration and production

A number of conflict issues, both perceived and real, were raised in the survey, pointing to emerging tensions and concerns in the political, economic, social and environmental spheres, as well as issues related to land conflicts, and community communication with companies. Potential conflict risks of oil drawn from the survey are summarised in Table 3.

Table 3: Summary of conflict risks related to oil exploration and production

Summary of conflict risks	
Political	<ul style="list-style-type: none"> (i) Tension over distribution of revenue and other benefits of oil – between national and district levels; and at the local level; (ii) Increased corruption as political leaders vie for control of change process, with some positioning themselves as “gatekeepers” to oil-related opportunities; and (iii) Undermining of administrative structures and accountability as oil is managed from “above”, leading to community disillusionment, and ultimately political upheaval.
Land	<ul style="list-style-type: none"> (i) Scramble for access to land, leading to rapid transition of customary or communal land into registered tenure (leasehold), and subsequent exclusion of communities from common lands and resources; (ii) Influx of immigrants, speculators and investors in land leads to different forms of resentment and tension between communities and new landowners; (iii) Fraudulent sale of land in areas where oil has been discovered further undermines confidence; and (iv) Fear of “land grab” by oil companies or government without proper compensation exacerbates tension.
Economic	<ul style="list-style-type: none"> (i) Disparities between different localities and households sharpened as some benefit more directly from oil developments, leading to resentment; (ii) Company recruitment processes and access to business opportunities perceived as unfair and corrupt, undermining confidence and breeding resentment of supposed beneficiary groups; (iii) Livelihood activities such as fishing disrupted, leading to range of negative impacts for affected groups; (iv) Delayed payments or compensation of either local service providers or landowners whose land is affected by building of infrastructure, breeds discontent; and (v) Location of any future oil refinery exacerbates different districts’ perceptions of their own place in national-level (de)prioritisation.
Social	<ul style="list-style-type: none"> (i) Migration to oil-affected localities heightens tribal and cultural consciousness negatively to the incoming migrants, especially where newcomers are seen to benefit from opportunities at expense of local people.

¹³⁷ Amnesty International (2009). *Nigeria: Petroleum, pollution and poverty in the Niger Delta*. London: Amnesty International; C. Ukeje (2003). *Oil and violent conflicts in the Niger Delta*. Michigan: Michigan University Press.

Environmental	<ul style="list-style-type: none">(i) Concern over environmental impacts coupled with unclear channels of redress leads to tension; and(ii) District authorities responsible for environmental protection are undermined by “top-down” management of oil industry, eroding public confidence in administrative system.
Challenges in company/community communication	<ul style="list-style-type: none">(i) Lack of information about company activities breeds suspicion and rumour across a range of impact areas;(ii) Companies’ closer relationship to central government and failure to fully and consistently consult with local officials undermines local government;(iii) Companies’ selection of individual “gatekeepers” at local level fuels nepotism and corruption; and(iv) Company disbursement of financial support to traditional institutions in the absence of a clear framework for such a relationship risks increasing tension within such institutions; and between such institutions and the wider community.

5. Cross-border conflict risks

The report will now focus on the relationship between Uganda and its neighbour DRC. The two countries share Lake Albert according to colonial-era state boundaries. Full-scale exploitation of the offshore oil known to exist in the lake will ultimately require their political and technical cooperation. This section will first give a brief overview of the oil industry in eastern DRC, as well as issues related to the governance of oil wealth in the DRC in general and conflicts in Ituri province where the oil is found in particular, before proceeding to discuss the inter-state relationship between the two countries as it may relate to the oil discoveries. The final part of this section will explore community-level relations between Ugandans and Congolese living at the border, as seen from both sides.¹³⁸

5.1 Overview of the oil sector in eastern DRC

5.1.1 Oil prospecting in the Congolese “Tanganyika Rift”

The DRC has an insignificant presence on the global oil markets, but oil is of considerable significance nationally. Crude oil is the DRC’s second biggest export and the DRC government is banking on its expansion, which could revolutionise the country’s economy. Oil is therefore a strategic sector, and its control and future exploitation is politically sensitive.

The DRC has one oil-producing area, the Coastal Basin at the mouth of the Congo River around the town of Moanda on the DRC’s small Atlantic coastal strip. Almost completely surrounded on both sides by Angolan territory, this oil basin measures 5,992 sq. km, of which 1,012 sq. km are offshore.¹³⁹ The offshore area is a small triangle of ocean located in Angola’s territorial waters, while production onshore takes place mainly along the coast. Oil concession areas also expand further inland, east of Cabinda, but no production has yet taken place here.

Two other areas are believed by the DRC government to contain commercially viable oil reserves and are currently being explored. One is in the Central Basin, a remote area without much infrastructure on the borders between Bandundu and Équateur provinces, where the Brazilian firm HRT-Petroleum is conducting preliminary geological studies for the DRC concession holder Comico (Compagnie Minière Congolaise).¹⁴⁰ The other is in the Rift Valley in eastern DRC along the border with Uganda, the “Tanganyika Rift” or Albertine Rift, which includes the Congolese part of Lake Albert, the lakeshore and areas southwards towards Lake Edward and the Virunga National Park.

Commercial oil production in the DRC began in 1975 and reached its peak in 1985 with production of 12,225,449 bbl (33,494 bpd). Subsequently production fell below 30,000 bpd in 1988 and 25,000 bpd in 1999, with a temporary renewed surge between 2003 and 2005. In the first quarter of 2008, production fell to a historic low of 22,570 bpd. Onshore production is fairly constant at 10,000 bpd, with remaining production by the offshore fields, some of which appear to be nearing the end of their lives.

While the DRC’s production volumes are negligible compared to its Atlantic neighbour Angola,

¹³⁸ It should be noted that the analysis in this section is incomplete as a result of an emphasis in the overall research for this report on Uganda. It will however serve as a basis for further International Alert exploration of both cross-border issues and oil impacts on the DRC border (complementing a project to counter conflict risks associated with oil in Uganda), together with relevant partners, in future.

¹³⁹ Official data published in: RDC, Ministère des Mines et Hydrocarbures (June 2003). *Guide de l’investisseur*. Kinshasa.

¹⁴⁰ Oral reply of DRC Oil Minister Lambert Mende to a question in parliament, published in *La Prospérité*, 16th June 2008.

export earnings from oil are relatively large compared to other sectors. Crude oil export earnings as reported by the government rose above US\$200 million a year in 2000 and above US\$300 million in 2007.¹⁴¹ Since 1999, oil has been the DRC's second largest export earner, surpassed only by diamonds, and oil is one of the steadiest and most substantial providers of state revenue. Budgetised and recorded state oil revenues have grown from US\$37 million in 2001 to US\$67.5 million in 2004 and US\$82 million in 2008. Primarily exported to the US, none of the DRC's oil is refined or used for domestic purposes.

Current exploration activity in eastern DRC

The rift alongside the Ugandan border has been divided by the DRC government into five blocks. On 10th June 2002, the London-based oil firm Heritage Oil announced that it had signed an exclusive agreement with the DRC government to develop contractual terms for the development of oil in an area of eastern Congo measuring around 30,000 sq. km, encompassing all five blocks.¹⁴² However, Heritage did not proceed to carry out prospecting activities in the area and the contract was never finalised. There were continued expressions of interest in the DRC's rift by companies working in Uganda, as Heritage and other oil companies prospected for oil on the Ugandan side of Lake Albert with mounting success.

In September 2006 Heritage announced that, together with Tullow, it had signed a PSA with the DRC government for Congolese blocks 1 and 2.¹⁴³ Tullow was the sole operator in the partnership, holding a 48.5 percent share, with Heritage holding 39.5 percent and the DRC state company Cohydro holding 12 percent. A signature bonus of US\$500,000 was paid.

A year later, the Congolese Minister for Oil Lambert Mende forced Tullow to cede 40 percent of its shares to the Spain-based H. Oil company, in effect breaking the 2006 PSA.¹⁴⁴ Tullow was left with Block 2.¹⁴⁵ Tullow representatives denounced the move, putting the quarrel down to the DRC Oil Ministry wanting more money.¹⁴⁶ One of Mende's demands, often repeated in official statements, was that if Tullow wanted two blocks it should have paid two signature bonuses, not one.

The main beneficiaries of Mende's move away from Tullow and Heritage appeared to be well-connected South African companies. In January 2008, Block 1 went to a consortium led by the South African state oil company PetroSA, with a 37 percent minority share given to H-Oil.¹⁴⁷ Block 3 went to the South African company Sac Oil, and Block 5, including the Congolese part of Lake Edward and land to the west of it in North Kivu province, to Dominion Petroleum. This firm, already exploring on the Ugandan side of Lake Edward, announced its acquisition of the contiguous Block 5 in partnership with SOCO, already active in Western Congo, on 17th March 2008.¹⁴⁸

The consortium set up by PetroSA included the companies Divine Inspiration and Sac Oil. Sac Oil was bought by Samroc (South African Mineral Resources Corporation), which retained Sac Oil as the name; it was reported that it had paid a bonus to the DRC of US\$3.5 million.¹⁴⁹ Samroc is controlled 65 percent by Encha Group, which is owned by the prominent South African Moseneke family.¹⁵⁰

141 Institute of Security Studies (2005). *DRC Economic Profile 2005*. Pretoria: IIS.

142 D. Johnson (2003). *Shifting sands: Oil exploration in the Rift Valley and the Congo conflict*. Goma: Pole Institute.

143 'Heritage Oil signs production sharing agreement in DRC', Heritage Oil (press release), 13th September 2006.

144 'Congo revokes one Tullow Oil exploration licence', *Reuters*, 18th August 2007.

145 'Tullow denies it has relinquished Congo oil field', *Bloomberg*, 8th February 2008. See also 'Pétrole du Rift Albertine: L'Honorable John Tinanzabo fait des révélations' [Albertine Rift oil: The Honorable John Tinanzabo makes revelations]. Available at www.vigilancercd.afrikblog.com.

146 Interviews with Tullow, Kampala.

147 'Congo wants petroleum companies to help in oil search', *Bloomberg*, 8th February 2008; see also 'Dossier Explosif: Polémique autour du Rift Albertine' (Explosive file: Controversy around the Albertine Rift), *Géopolis Magazine*, June 2008, pp.9-14. The article reproduces material used by DRC MP Jean Bamanisa in his oral question to Oil Minister Mende in April 2008.

148 'Acquisition of new exploration licence in the DRC', Dominion Petroleum (press release), 17th March 2008.

149 'Samroc makes move into Congo by buying Sac Oil', *Business Day*, 27th March 2008.

150 'SA consortium loses DRC oil concession', *The Times* (South Africa), 4th April 2009.

As these intrigues continue to play out, the DRC's progress in exploring the oil on its side of the lake has slowed, with the South African partners undertaking no activities to date, even as record findings have been announced on the Ugandan side. The newly appointed Minister for Oil René Isekemanda Nkeka, who came into the post after Mende was attacked by parliamentarians for mishandling the DRC's eastern oil blocks (see Section 5.1.2), recently initiated a further twist, announcing in March 2009 that Tullow could get its DRC oil rights back.¹⁵¹ There would have to be separate contracts for each block and new as yet unspecified partners would have to be brought in. There is speculation that the issue might be resolved by making PetroSA the new partner.¹⁵²

5.1.2 Governance issues

Controversy over the government's handling of exploration in the eastern oil blocks was the subject of heated debates in the DRC parliament during 2008. Issues raised by MPs included the fact that the company Divine Inspiration was registered in the DRC as a trading firm only, thus was not eligible to sign an oil PSA, and that Congolese stakeholders had been fooled into believing that the South African state oil company PetroSA itself was investing in the DRC. Moreover, in the South African contract, the DRC government share had been reduced to 7 percent as opposed to 12 percent in the agreement with Tullow, and PetroSA was reported to have promised only US\$250,000 of community investment per year as opposed to Tullow's pledge of US\$5 million.¹⁵³ Dissatisfied with Mende's response to their arguments, MPs moved in July 2008 to issue a sharply critical statement, also recommending a revision of all existing oil contracts for the Central Basin and the Albertine Rift; an increased share for Cohydro and private Congolese operators in oil contracts; the construction of an oil refinery; the dissolution of private security companies operated by investors in Ituri; the need for government to consult local Ituri opinion; certification of the DRC's oil reserves; pressure on Angola to ratify the Common Interest Zone agreement; and an inquiry into the internal administrative procedures of the oil ministry.¹⁵⁴

Concerns were also raised by local organisations in Ituri. An umbrella body of Ituri CSOs, the *Cadre de Concertation* (CDC), founded in March 2007, presented issues at stake to parliamentarians, as well as at a conference in Uganda, observing that the population is badly informed about oil developments, and that rumours were causing mounting anxiety.¹⁵⁵ Box 8 elaborates on these ideas.

Box 8. Recommendations for a citizen's lobby on oil – presented by the Bunia Diocesan Justice and Peace Commission

- The government should draw up an oil law and make it accessible to citizens in the Albertine oil areas.
- Ituri's elected representatives (senators, MPs and provincial deputies) should consult communities in order to understand their views and concerns related to oil. Oil companies should as a matter of urgency present their plans for contributing to social development and future peace in the region.
- In future, communities should have the opportunity to be involved in oil companies' feasibility studies and impact assessments, allowing for proper consultation and incorporation of views.
- Affected citizens should have the option of becoming shareholders in the companies' operations in their areas with at least a 1 percent stake, organised as a community cooperative.
- Steps should be taken to ensure that the grassroots and future generations benefit from oil production, especially in the areas of agriculture, environment, social work, education and health, emphasising initiatives to enable communities to sustain themselves, such as micro-credit schemes.

151 'Congo to invite Tullow back to disputed oil block', *Reuters*, 24th March 2009.

152 'Divine Inspiration says it will stay on DRC block', *Petroleum Africa*, 14th April 2009; 'PetroSA confirms interest in disputed DRC blocks', *Petroleum Africa*, 4th May 2009.

153 'Litige autour du bloc 1 du Rift Albert' (Litigation of the Albertine Rift block 1), *Le Potentiel*, 29th April 2008.

154 See *Géopolis Magazine*, July 2008, p.14.

155 Presentation made by delegation of Ituri civil society at a conference organised by AFIEGO in Kampala, 5th September 2008.

- Steps should be taken to avoid a possible “Balkanisation” of the region, with vigilance from the international community that competition for access to oil in the region does not stir up conflict between communities.
- Recognising that the DRC and Uganda share oil in the Albertine Rift, a mutual cooperation agreement leading to a Joint Production Agreement should be made. Such an agreement should stipulate guarantees for cross-border exchange, ensuring benefits to local communities.
- Such tensions as previously emerged over Rukwanzi Island (see below) have dangerous implications for border populations and the region as a whole. A commission of the DRC, Uganda and international officials should actively clarify the boundaries laid out along the borders by the former colonial powers, in order to demarcate lakeside borders between the two countries to guard against future tensions.

The problems around the blocks in eastern DRC have clearly put the spotlight on oil governance issues. Experience from the other oil-producing areas in the country points to challenges ahead. While the appointment of a new oil minister may signal a new approach to handling oil in eastern DRC, the overall policy framework is still lacking. Oil policy in the DRC is still essentially governed by rules originating in colonial times. While new legal frameworks have been put in place for both mining and forestry since 2002, the oil sector is still subject to the old Mining and Oil Law of 1981.¹⁵⁶ The 1981 law is to a large extent similar to previous laws of 1967 and 1959.¹⁵⁷ It stipulates that mining rights for oil are accorded by a convention signed by the ministries of energy and finance that is effective only on presidential ratification. There is no obligation to include the state or state enterprises in any oil partnership. These clauses have become politically contentious in recent years, as they mean that the DRC oil minister cannot sign any legally valid agreements with oil companies. (Strictly speaking, therefore, no decision taken so far on eastern DRC oil concessions has any legal force as no agreement has as yet gained presidential approval.)

Work on a new *Code des Hydrocarbures* is now in progress and a draft was presented to the first national conference on oil, held in August 2008.¹⁵⁸ According to press reports, the draft provides for a stronger and obligatory role for the state in future PSAs. However, there have been no recent developments reported on this, and the issue appears to be on the back-burner.

To date, there has been little or no transparency as to the precise volume of oil production being exploited in DRC, or any revenues from it – which does not bode well for future oil production in the east. According to local NGOs in Bas-Congo, offshore oil production is simply loaded into a waiting tanker which leaves when it is full.¹⁵⁹ There are many different production figures, the way revenue figures are generated is unclear, and their relation to production volumes haphazard. The partnership contracts between the DRC government and oil firms are not made public. A persistent issue is the question of who controls oil revenues. According to the DRC constitution, 40 percent of state revenues is supposed to be retained by the provinces where it originates – the constitution also created a mechanism to balance the revenues between wealthier and poorer provinces. Politicians representing Bas-Congo have consistently demanded in vain that this clause is applied to the oil revenues generated in their province.

¹⁵⁶ Though it should also be noted even though new legislation exists for mining and forestry, it is frequently not implemented. Also, certain aspects of the law cause tension. For example, the 2002 Mining Code says that the minerals under the soil belong to the state, but this is often rejected by local authorities who traditionally “own” the land. Companies who have titles granted in Kinshasa are pressured to make payments to traditional authorities on-site.

¹⁵⁷ E. M. Warwana. ‘Oil exploration and Congolese law’, *Juricongo*, January-February 2000.

¹⁵⁸ ‘Code des hydrocarbures: La commission met la dernière main sur la version finale’ [Oil law: The commission puts the last touches on the final version], *Le Potentiel*, 8th August 2008; ‘L’avant-projet du Code des hydrocarbures remis à Lambert Mende’ [The draft Oil Law delivered to Lambert Mende], *L’Observateur*, 8th August 2008.

¹⁵⁹ B. Kundu and J. di Mapianda Bakulu (November 2008). ‘Le pétrole de Moanda au Bas-Congo: Qui en bénéficie?’ [Oil in Moanda, Bas-Congo: Who benefits from it?], *Sarwatch Report*. Johannesburg, p.27.

Critics also say that Congolese law does not place sufficient obligations on oil companies to pass on earnings to the host country, or to invest in local communities. Thus, the oil levy is fixed at 12.5 percent, less than in other countries, while companies are only obliged to spend US\$150,000 a year on social and training programmes.¹⁶⁰

Other issues also raised by NGOs from the oil-producing areas include the claim that local inhabitants have not benefited from employment opportunities or other positive impacts of oil in their areas.¹⁶¹ There are moreover accusations of pollution causing environmental degradation and health problems for local people.¹⁶² Lack of access to land is also perceived as a major problem, with NGOs reporting that oil companies refuse peasants and fishermen access to their traditional lands or fishing areas.¹⁶³ A committee made up of local government officials, oil firms and community organisations in Moanda called Cocodem (*Comité de Concertation et de Développement de Moanda*) has been set up to address these challenges, but is widely criticised for corruption.

5.1.3 Conflicts in the eastern DRC oil region

The likely trajectory of new oil discoveries in eastern DRC is further complicated by the political instability that has plagued the region. The entire eastern region of DRC has been characterised by a series of armed conflicts since the 1990s, including ongoing inter-communal violence and widespread violation of human rights. Continued enmity lies only just below the surface among the main communities. It is important to recall that the scale and intensity of the inter-ethnic violent killing in Ituri as recently as 2002–3 was the worst that occurred in Congo throughout the whole period from the outbreak of the first war in 1996 to the elections in 2006. At times, the violence in Ituri was much more akin to that occurring in Rwanda in 1994 than to the Mai Mai/the Rally for Congolese Democracy-Goma (RCD-Goma) battles and isolated massacres in the Kivus and other parts of Congo during that time. Despite some isolated projects, there has not been serious investment in confidence-building and reconciliation between the communities to date, thus re-emergence of conflict is always a possibility.

It is also notable that the fundamental issues that contributed to the Ituri violence at the beginning of the decade persist: land rights, access to natural resources, deficient or non-existent governance and justice systems, and deficiencies in the security sector. Most recently, LRA rebels from Northern Uganda have increased fear and insecurity in the region – although their activities have been mainly focused to the north of Ituri, increasing levels of violence threaten to spill over.¹⁶⁴ At the present time, with reports that MONUC will be reducing its presence in the region, the likelihood of a significant security gap looms in the background.

While there are therefore at present no major wars currently being fought in Ituri itself, the region remains at high risk. Some of the current conflict dynamics and sources of insecurity affecting the province are as follows:¹⁶⁵

160 'Autopsie des accords de concession signés entre la RDC et les exploitants pétrolier', [Autopsy of concession agreements signed between DRC and oil exploiters], *Digitalcongo*, 23rd November 2005.

161 Kundu and Mapianda Bakulu (2008). *Op. cit.*, p.37–46.

162 Pasteur Jacques Bakulu. 'Développement durable et responsabilités sociales ds entreprises' (Sustainable development and corporate social responsibility), Actions pour le Développement et la Vie (ADEV), workshop on 'Sustainable development, environment and democracy: Promoting responsible oil exploitation', Conference Report, July 2008, p.41. The conference listed the following problems arising from oil exploitation: lack of consultation; non-payment of customary rights; destruction of forests; lack of transparency in the use of royalties; secretiveness relating to oil contracts; lack of compensation for destruction caused by oil production; loss of local property rights; drying up or pollution of waterways; pollution of groundwater; air pollution through gas flaring; incompetence of local environmental services; unfavourable employment policies by the oil companies; burial of toxic waste near villages; non-compliance by oil companies with their own environmental rules; pollution and drying up of mangrove swamps; non-respect of previous engagements. On environmental pollution see also Kundu and Mapianda (2008). *Op. cit.*, pp.52–54.

163 A. Mingashanga. 'Exploitation and production of oil in Bas-Congo: What is the role of the local community?', Cenadep Report. Kinshasa, November 2006.

164 Human Rights Watch (February 2009). *The Christmas massacres*. Available at <http://www.hrw.org/en/node/80769/section/1>.

165 This section is based on research undertaken by International Alert as part of its Goma project during 2009.

- A political uprising in the north where the Alur people are upset because “foreigners” – that is non-Alur people – have been appointed to important posts in the local administration.
- Chaotic and dangerous growth of artisanal workings in the main Kilimoto gold-mining region from Iga Barriere to Mongbwalu. Large numbers of former *miliciens* involved.
- Land disputes in eastern Djugu – mainly between Hema and Lendu. Currently the main cause is attempted return by long-term IDPs. This was an area which was characterised by ethnic cleansing and land-grabbing by both Hema and Lendu communities during the worst years of the violence between 1999 and 2003. Tension over landownership is not violent currently, but could become so.
- Occasional *inter-milice*, and *milice* vs. FARDC fighting over control of different stretches of the Lake Albert shoreline. This is because of lucrative revenues from taxation of cross-lake trading.
- Resurgence of militia attacks in Ngiti country around Gety, south-east of Bunia. The pattern seems to be that the militia attacks a few villages and takes control of them, and then a few days later FARDC soldiers are ferried in by MONUC helicopters; a few shots are fired and the *miliciens* withdraw and fade away into the population. There is generalised uncertainty about the motives of these attacks, but they are becoming more frequent and they make for insecurity on the road south to Beni.
- Daily incidents of criminal banditry, very often committed by armed men in uniform, as well as escapees from prison, of which there are a large number. This is particularly true in Bunia town.

Potential oil impacts on conflict in Ituri

It is well-recognised that the various combatants in eastern DRC and their often powerful external backers have exploited the natural resources of the country to sustain themselves and make profits from war over the worst years of conflict; and that this remains a significant driver of instability in the region.¹⁶⁶ In addition to the issues raised above, the possibility of conflict over the Albertine oil resource is seen to be very real by citizens in Ituri – as already indicated in Box 8 – adding a new source of competition to an already volatile situation. Immediate aspects of such competition over oil relate to expectations about how the possible benefits from the industry will be shared; as well as control of lakeside landing points, which look likely to rise in value (and which is already a source of competition simply for the revenues from cross-lake trading, as mentioned previously).

At their 43rd Plenary Assembly held in Kinshasa from 3rd to 7th July 2007, the Bishops of the DRC discussed the ‘haphazard and as yet uncontrolled exploitation of natural resources’ by elites. On this topic, concerning the Albertine Rift, they observed that:

*‘Future exploitation of petroleum in Lake Albert in Ituri, home to much tension, gives rise to concern regarding the advantages for the population. People are afraid of a petroleum war and will only feel appeased by the truth. In short, our country’s security situation is worrying. The authorities, the population and all those volunteering to save our country from further hostilities are called upon to unite their efforts’.*¹⁶⁷

Any re-escalation of conflict in Ituri, whether related to oil or the many other conflict dynamics affecting the province (or a combination), will inevitably also have an impact on inter-DRC and Ugandan relations at both state and local levels. It would also further undermine any chances of a Joint Production Agreement (JPA) between the two countries, which is necessary if the full potential of the oil resource in Lake Albert is to be fully realised.

¹⁶⁶ UN Panel of Experts, *Report by the Panel of Experts on the illegal exploitation of the Democratic Republic of Congo’s natural resources and other riches*, 20th April 2001. See ‘Act on Group of Experts’ findings on mineral trade funding Congolese armed groups, Global Witness tells governments’, Global Witness (press release), 15th December 2008. Available at http://www.globalwitness.org/media_library_detail.php/698/en/act_on_group_of_expert_findings_on_mineral_trade.

¹⁶⁷ Message delivered at the Congo National Episcopal Conference to the Catholic faithful and men of goodwill to mark the 47th anniversary of independence, Kinshasa, 7th July 2007.

5.2 Uganda and the DRC – good neighbours?

The relationship between Uganda and the DRC has been troubled throughout the period of DRC's wars. Uganda's military involvement in the DRC during the 1990s, and evidence that senior Ugandan military personnel were complicit in the trafficking of the DRC's mineral wealth – as well as Uganda's implication as backer of some of the country's most brutal militias active during the period – has left a legacy of mistrust between the two countries.¹⁶⁸ An agreement on reparations awarded to the DRC from Uganda in a ruling by the International Court of Justice has not been finalised, and despite ongoing diplomatic initiatives to establish a more peaceful and neighbourly relationship in the future, this remains a source of ongoing tension.¹⁶⁹

Displacement of the LRA's theatre of conflict into the DRC has done nothing to ameliorate this tension – while the armies of Uganda and the DRC, together with South Sudan, mounted a joint operation against the LRA at the end of 2008, it is not entirely clear whether all UPDF have now left after repeated requests from Kinshasa that they do so;¹⁷⁰ and at a community level the suffering now being inflicted on Congolese citizens by the LRA threatens to contribute to further animosity towards Ugandans generally in the DRC – much as LRA activity in South Sudan has created similar mistrust.

Competition over the oil resource has been apparent between the countries to date, influencing the narrative of Heritage and Tullow's experience in the DRC as discussed above, with the Congolese government at times expressing suspicions that the two companies, already active in Uganda, are somehow “colluding” with the Uganda government.¹⁷¹ Some see in the occasional border tension that has emerged since the oil discoveries, expression of the DRC fear of an oil-rich Uganda as a new power in the region.

5.2.1 Border tensions between Uganda and the DRC¹⁷²

Dispute over Rukwanzi Island

The border between Uganda and the DRC running through Lake Albert was originally established by an agreement between Belgium and the UK in 1915. As a direct result of new oil activity, the boundary is now the subject of a dispute which led to violence in July–August 2007. An immediate cause of the conflict was that Rukwanzi Island in the lake, around which oil exploration activities were taking place, is officially in Ugandan territory but mainly populated by Congolese fishermen, a situation that is further complicated because erosion of the Semliki River mouth leading into Lake Albert has blurred the old boundary.¹⁷³ In July 2007 Congolese forces landed on Rukwanzi Island and captured four members of a Ugandan marine unit.¹⁷⁴ A few days later, Congolese soldiers attacked a Heritage Oil barge on the lake, killing one member of the company's sub-contract seismic crew.¹⁷⁵ A firefight between Congolese and Ugandan soldiers ensued, with one

168 H. Wasswa (2007). 'Will Uganda pay up for Congo occupation?'. Institute for War and Peace Reporting June 2007 Report. London. Available at <http://www.globalpolicy.org/component/content/article/163/28685.html>.

169 'Armed activities on the territory of the Congo: The ICJ judgement in the context of the current peace process in the Great Lakes region', Report of Chatham House meeting, 27th June 2006; Wasswa (2007). Op. cit.

170 International Crisis Group, 'Memorandum on the UNSC Mission to Africa', 11th May 2009. Available at <http://www.crisisgroup.org/home/index.cfm?id=6102>.

171 'Tullow loses Congo oil exploration permit', *Daily Monitor*, 7th May 2008. Founded and directed by the former British SAS fighter Tony Buckingham, Heritage Oil in the early 1990s pioneered the use of South African private military enterprise Executive Outcomes to protect oil installations at Soyo in Angola on the southern edge of the Congo River mouth from Unita rebels. The DRC contract of 2002 was reminiscent of this, as it concerned mainly Ituri District, an area controlled by rebels and various militias in violent conflict, some supported by Uganda where Heritage Oil was already exploring for oil. Thus the DRC contract was seen by some as a bid to entrench Ugandan control on the DRC side, possibly using similar military means as in Angola ten years ago.

172 Interestingly – and perhaps an indication of DRC's currently disorganised position with regard to oil – border disputes centred around possible maritime oil deposits have also developed between the DRC and Angola, in the Atlantic Ocean. While the border conflict with Uganda escalated to the point of armed confrontation, the dispute with Angola could prove more damaging in the long run.

173 'Army reveals cause of lake clashes in DRC', *Daily Monitor*, 9th August 2007.

174 'Congo army arrests 4 UPDF', *New Vision*, 31st July 2007.

175 'Congo army attacks Uganda barge', *BBC News*, 3rd August 2007; 'Heritage oil reports incident in Uganda', Heritage (press release), 3rd August 2007.

Congolese soldier killed.¹⁷⁶ Congolese troops were subsequently reported to be raiding Ugandan territory and Ugandan ministers threatened air strikes and a new invasion in retaliation.¹⁷⁷ A further incident involving Heritage surveyors took place at the end of 2007.¹⁷⁸

Observers in both countries blamed the other for the tension but reached the same conclusion: that the DRC did not want the Ugandan-based oil companies on its territory. A Ugandan journalist writing in the German newspaper *Die Tageszeitung* wrote: 'Congo may be planning on delaying the emergence of Uganda as an oil-producing country while Kabila consolidates his hold back home. In this complex game, Kabila may be looking to oil-rich Angola (and China) to develop his Eastern oil fields'.¹⁷⁹ The leading Kinshasa newspaper *Le Potentiel*, on the contrary, wrote: 'These incidents confirm all that has been written on the wars of aggression against the DRC – wars with economic dimensions. There was the gold of Ituri; today, the Lake Albert incidents are linked to oil exploitation: Heritage Oil, based in Uganda for more than ten years, is trying to extend its reach onto the Congolese side'.¹⁸⁰

Congolese incursion in West Nile

Efforts to re-build diplomatic relations following the Rukwanzi Island incident (see 5.2.2 below) were set back by a further incident at the border of Aru/Arua in West Nile on the Uganda side. This involved Congolese military personnel shifting the border post 5 km inside Ugandan territory. The incident occurred at the same time as Tullow's concession in DRC was revoked, contributing to the impression that the events were linked. Despite the apparent aggression, and some indignant rhetoric from Ugandan officials at the height of the crisis, most observers concluded that the move was as much further evidence of the DRC government's limited control over some of its forces in the east as any real escalation of oil conflict between the two countries.¹⁸¹

5.2.2 Diplomatic initiatives

The Arusha Pact

On 8th September 2007 the DRC and Ugandan presidents signed a landmark agreement in Arusha, Tanzania which, among other things, stipulated joint exploration of cross-border oil fields based on a revision of the existing agreement of 1990 (Article 4.2).¹⁸² It also asserted that the island be demilitarised, and that a demarcation commission be established to delineate the boundary between the two countries (Article 3.2). A year later, the commission ruled that Rukwaanzi Island was indeed Ugandan – falling some two or three kilometres within Uganda territory.¹⁸³ Despite the ruling, the two countries agreed that the DRC would be part of the administrative team managing the island. Congolese analysts were optimistic: 'So the DRC and the Uganda are refusing to engage in an oil war. They have certainly been inspired by the agreements between the DRC and Angola. With the agreement it is clear that a second Common Interest Zone has been born'.¹⁸⁴

The Arusha Pact also allowed for the establishment of regular inter-agency meetings between the two countries, including twice-yearly meetings of ministers of defence and their permanent secretaries; annual meetings of chiefs of defence forces and military intelligence; and monthly

176 'Congo deploys at Lake Albert', *New Vision*, 4th August 2007.

177 'Congo gunmen raid Kanungu', *New Vision*, 10th August 2007; 'Congo troops occupy country's territory', *Daily Monitor*, 11th August 2007; 'Air Force to patrol against Congo attacks', *Sunday Vision*, 12th August 2007; 'UPDF to re-enter Congo if talks fail', *Daily Monitor*, 13th August 2007; 'Museveni meets High Command over Congo', *Daily Monitor*, 14th August 2007.

178 'Security on Lake Albert', *Africa Energy Intelligence*, No. 465, 4th June 2008; 'Uganda, DRC conflict over Rukwanzi Island resolved', *Daily Monitor*, 10th September 2008; 'Border dispute unresolved', *Africa Energy Intelligence*, No. 472, 1st October 2008; and 'DR Congo troops arrest Heritage Oil surveyors', *Daily Monitor*, 25th November 2008.

179 A. Izama. 'Im Herzen Afrikas droht ein Ölkrieg' (The coming war), *Die Tageszeitung*, 10th August 2007.

180 'Le pétrole après l'or oppose l'Ouganda à la RDC dans le Lac Albert' (Oil after gold as cause of tension between Uganda and the DRC in Lake Albert), *Le Potentiel*, 9th August 2007.

181 'Museveni, Kabila to meet over border crisis', *New Vision*, 9th May 2008.

182 'The Arusha Pact between Uganda and Congo on security and oil', *New Vision*, 12th September 2007.

183 'Uganda, DRC conflict over Rukwanzi Island resolved', *Daily Monitor*, 10th September 2008.

184 'RDC-Uganda: Pas de guerre de pétrole' (DRC-Uganda: No oil war), *Le Potentiel*, 20th September 2007.

meetings of regional commanders – in addition to regular joint border meetings to be held alternately on both sides of the border involving local political leaders, military commanders and other technical officials, as well as central government representatives. With regard to the renewed commitment to jointly explore and exploit any oil that straddled their common border, further channels of dialogue involving petroleum officials in the two countries were also identified.

A number of security-related aspects of the Arusha Pact – including such ambitious objectives as the disarmament, demobilisation, repatriation, resettlement and reintegration (DDRRR) of all “negative forces” operating from the two countries within 90 days of the agreement being signed – have not progressed, Operation Lightning Thunder against the LRA notwithstanding.¹⁸⁵ Since the pact, however, there has been evidence of improved diplomatic interactions between the two countries, with various meetings being reported in the press.¹⁸⁶ Despite the ruling in favour of Uganda over Rukwanzi Island, the overall boundary demarcation exercise is still not complete, which does leave room for uncertainty and the potential for ongoing tension over the border, particularly if oil companies move to start exploration activities off shore. It also by definition inhibits progress on joint exploration of shared areas.

5.2.3 Community-level relations between Ugandans and Congolese¹⁸⁷

The relationship between the communities living on both sides of the border has historically been characterised by trade, fishing activities, shared ethnicity and migration in both directions. Throughout the region, communities have kin on the other side of the border and there are many instances of intermarriage. Congolese refugees from the recent wars in Ituri have settled in Uganda without any formal process for the most part and are an accepted part of the local communities there. There are often market days on both sides of the border, with communities trekking to either side.

Despite these ties, there is evidence of low-level mistrust between border communities across the whole rift area – several flashpoints of which have been flagged in Section 4.1. These relate to pressure on resources perceived to be caused or exacerbated by the influx of Congolese refugees; more focused conflict between Ugandans and Congolese grazers over access to grazing land – for example between the Bagungu and the Congolese Alur in Bunyoro – as well as over fishing rights. Fishing rights and safety on the lake is one of the most contentious issues, and is linked to unclear boundaries. It is common on both sides of the border for theft, intimidation and in extreme cases murder to occur. The objects of theft are mostly fishing nets and motor boat engines. It is reported that fish stocks are seriously depleted, and this is one of the reasons why Congolese fishermen are increasingly fishing on the Ugandan side of the lake. Apparently there has been a long-standing convention to restrict the size of nets to an agreed maximum, but since the war in Ituri, this has been broken by the Congolese who are now using larger nets and are reportedly being encouraged by the army to do so. There are probably army interests in the trading of fish, but more immediately the army takes a tax in kind of two kilos per day per boat, regardless of the size of the catch. Apart from resentment about the army tax, fishermen are worried about the depleted stocks, and also about the dangers of pollution associated with oil production. The discovery of oil has thus not created any new problems but merely heightened tensions and increased the severity of such occurrences.

‘The Congolese who are settled in our area came as a result of war and they have settled here peacefully, although the majority of them returned. Our relationships are mainly bad in the water; there have been reports of thefts of engines and nets and these are a source of conflicts between the fishermen from both countries; the fact that the boundary in the

¹⁸⁵ Major Paddy Ankunda quoted in ‘Uganda, DRC conflict over Rukwanzi Island resolved’, *Daily Monitor*, 10th September 2008.

¹⁸⁶ ‘Museveni, Kabila meet’, *New Vision*, 4th March 2009; ‘Revisiting “Operation Lightning Thunder”’, *The Independent*, 9th June 2009.

¹⁸⁷ This report focuses in more depth on how Ugandans perceive Congolese counterparts simply as a result of its research scope. No bias is intended and Alert hopes to build on this study by further engagement with civil society living on the other side of the border.

lake is not identifiable makes resolution of such conflict even more complicated. As we speak now, if a person wanted to sell fish in Congo, they have to first go to Bwera, yet before they would cross by boat direct from here and in the evening they would be back'. (KII, Kyangwali – Hoima District)

'Oil has not changed our relationship; these are outstanding old conflicts like stealing fishing nets, engines [...] only that nowadays we feel it is more dangerous'. (Fishing community, Buhuka-Kyangwali – Hoima District)

Other evidence of potential or simmering tension includes: fear of infiltration by armed groups from the DRC, particularly in Bundibugyo; a conflict simmering in Nebbi District between the Alurs of Uganda and the Lendu of Congo that has arisen due to the Lendus' desire to establish themselves in Uganda; as well as a broader impression on the part of local people in West Nile that some in the Congolese refugee population have become rich through the process of settling in Uganda over the years at the expense of indigenous communities. Section 4.2 also revealed that across the whole area, there are perceptions that Congolese living in Uganda have disproportionately benefited from job opportunities with the oil companies; and are among the various "foreign" groups seen by local people to be speculatively purchasing land with a view to compensation or future profit from increased value.

Ugandans also repeatedly complain of mistreatment by Congolese officials when visiting the DRC side of the border.

'A Ugandan can easily be arrested in Congo, but that cannot happen here in Uganda for a Congolese'. (KII – Hoima District)

'We used to graze our cows from Congo, but since the Rukwanzi conflict, when you go the chances that you will be manhandled are high; they extort herdsmen who go there and sometimes they even torture. Yet when they come here, we treat them fairly'. (Community leader – Bundibugyo District)

While it was not possible to conduct sufficiently detailed research into Congolese perceptions about Ugandans on the other side of the border for this report, it is apparent that the Ugandan army's known involvement in earlier cycles of violence has created a generally mistrustful attitude to Ugandans on the part of people living in eastern DRC. Other issues similar to those raised in Uganda may also exist.

The border incidents over the past two years between Uganda and the DRC clearly inhibit relational ties and increase tension among such border communities, with violence between fishermen a clear feature of the Rukwanzi Island affair; and a loss of business by local businesspeople on both sides during the Aru/Arua confusion reported in several of the press reports cited above. Any escalation in inter-state tension or renewed spill-over of refugees from the DRC related to any future re-emergence of conflict related to oil or other factors is likely to raise concerns as to the durability of the inter-community ties. Lack of resolution of some of the structural challenges related to land use and access rights that are being exacerbated by oil will also have implications for Uganda/DRC community relations within Uganda.

6. Countering conflict risks: Harnessing oil for peace and development in Uganda

This report has demonstrated that the discovery of oil has already contributed to an increase in certain tensions in Ugandan society, as well as at its borders with the DRC. It has found that there is every danger that such impacts will increase as the sector moves into production and as new blocks are explored in the future. At the same time, oil clearly has an enormous potential to alleviate poverty and lead to broad-based development and improved standards of living across the country; and, as a result of its being a shared resource between Uganda and the DRC, to signal a new era of cross-border cooperation in the wider Great Lakes Region. Understanding conflict risks that might be associated with oil at different levels is an essential first step towards their mitigation, enabling Uganda to ensure that the resource fulfils its potential to lead to peace and development.

What we know from elsewhere about managing the challenges of oil is that it is all too easy to get it wrong, and very difficult indeed to get it right. There is a sense in which the timing of the discovery of oil in Uganda coincides with a falling away of confidence in the political process; and a bubbling to the surface of a number of other latent tensions. Such tensions may have been masked by the relative peace and economic progress of the past two decades, but they have not been resolved, and the challenges that oil brings may interact with them to trigger conflict. Government, parliamentarians, other local leaders, development partners, companies, civil society and the media therefore all face a historic challenge to put Uganda on the right path for managing its oil.

A number of conflict risks that demand attention were identified in this report. The discussion covered both detailed and time-specific challenges related to the current moment in Uganda's oil sector's development; as well as more profound political challenges that go to the heart of the country's history and future (of which the current risks are often an expression). In trying to make sense of the way forward, this section proposes a set of strategies, clustered under three broad themes: (i) improving transparency about oil; (ii) delivering quality leadership; and (iii) promoting conflict resolution and national harmony.

6.1 Improving transparency about oil

The question of transparency about oil as practised by policy-makers and companies, and the readiness of citizens to understand the necessary issues, goes to the core of the potential for oil to exacerbate conflict dynamics in Uganda. Lack of information across different areas and levels of society has fed suspicion and mistrust, and created divisions. Information about likely land-use impacts as well as future compensation; geographic and institutional distribution of revenues; job opportunities and how these are to be shared out; as well as the likely environmental impacts of oil activity, is greatly in demand. Failure to meet this demand by the government and companies alike so far may have as its cause a simple lack of capacity related to the very newness of the sector. However, it can all too easily lead to an escalation of conflict given other circumstances and trends.

There is a clear and urgent need for greater public availability of relevant information – about all aspects of the oil industry; at all levels from national to affected sub-counties; and across all stakeholder groups. Improved understanding will restore citizens' confidence in government and companies – who face the challenge of reversing perceptions that they have to date been secretive about important developments such as the content of the PSA, signature bonuses and

exploration activities. It will also enable more realistic expectations, and for citizens themselves to be empowered through gaining the insights and understanding that they need to prepare for the future. Such empowerment is essential as a conflict prevention mechanism, helping people to learn to ignore false rumours, and to play their own role in ensuring positive outcomes.

6.1.1 Communication strategies

Improving the communication strategies of both companies and governments is a broad area and this report cannot cover all possible institutional arrangements that could be made to achieve this end. With regard to government, a more “open door” approach to public interest is required. An important first step will be to set up and resource an information office in the Ministry of Energy (as in fact required by the 2005 Access to Information Act, but so far not in place), to help deal with the increased volume of interest from different stakeholders that top officials are currently not able to handle. The PEPD has already updated its website, but wider distribution of information, e.g. through greater use of leaflets in local languages, events organised in different localities with local MPs and local government officials, FM radio and newsprint media, on a systematic and regular basis is required. In addition, developing accurate information on the extractive sector by setting up a national data bank would help improve transparency.¹⁸⁸ Beyond one-way provision of information, successful communication will entail efforts to educate people in the oil-affected areas and country-wide, specifically to impart some degree of technical understanding of the issues concerned, and actively build capacity.

For companies, opening and resourcing information offices, as some have already begun to do, is a welcome development; and thinking strategically about stakeholder engagement, including by putting in place professional teams dedicated to managing the social aspects of their work, is also key. This requires understanding the corporate “social footprint” as it affects all areas of business, including “core business” issues such as location of buildings and infrastructure; employment practice; security arrangements, etc; as well as the more obvious areas such as managing environmental impact and community relationships. Section 4 highlighted the issues that are likely to become a source of tension and conflict within communities in the absence of proactive communication and confidence-building by companies. There are numerous examples internationally of best practice as to how companies can effectively manage communication channels with affected communities and the wider public.¹⁸⁹ Ensuring transparency in relationships between companies and both local government officials and traditional institutions – and maintaining oversight of these and how they are perceived locally – is also important.

Lastly, there is also a clear role for international development partners in encouraging and supporting both government and companies to build their communications capacity to meet demand; as well as supporting critical oversight sectors to be effective. Parliamentarians, CSOs and the media, including CSOs and FM radio that are operating at a local grassroots level, can all play a key role in promoting accountability of government and companies, informing citizens and leading civic education processes, as well as mitigating tensions. Helping to develop this capacity is absolutely critical at this time and represents a major gap unfilled by current development partner interventions concerning oil. International development partners have a particularly important opportunity here to provide technical and financial assistance to such stakeholders; strengthening the “demand-side of accountability”.¹⁹⁰

6.1.2 Transparency and the emerging legislative framework

One area where improved transparency is required in the coming months relates to the process and outcome of the new legislative framework for oil. As mentioned in Sections 1 and 2 of this report, “combating the resource curse” has become a fertile area of policy research and attention

¹⁸⁸ Norway, for instance, has a ‘Petroleum Register’ to hold all the data collected by companies for the use of both private agencies and the state agencies.

¹⁸⁹ Zandvliet and Anderson (2009). Op. cit.

¹⁹⁰ IIED (2008). Op. cit.

in recent decades. Underpinning this discourse is the fundamental principle that transparency is critical at all stages of the value chain of natural resource management. This includes developing a clear and appropriate legal, fiscal, contractual and institutional framework that will benefit all stakeholders, with clearly defined roles and responsibilities for different government bodies and state institutions and industry actors.

It is apparent from interviews with policy-makers undertaken for this report that this basic principle is being taken very seriously in the process of drafting Uganda's new oil legislation. It therefore looks likely that the resulting legislation will score highly against international best practice (as did the NOGP), though continued efforts by parliamentarians, CSOs, media, and international development partners to support the Ugandan government in achieving an optimum legislative framework will be important. Clear steps are needed to take forward Uganda's implementation of EITI, including through encouraging companies present in Uganda to adopt it, as well as following EITI guidance on civil society's participation. It is also important that the legislative process proceeds as a matter of urgency – especially to deal with speculation and public concern about certain aspects such as revenue distribution. It is not clear at the time of writing where this process is at, with different government officials reporting different timeframes. An ongoing policy gap leaves serious potential for rumours and speculation among citizens to escalate further, alongside anxiety and tensions. Again, parliamentarians, CSOs, media and international development partners as well as companies all have a role to play in supporting and encouraging government to reach a timely conclusion with this process.

Good laws on paper are a necessary but far from sufficient part of policy; the real challenge is both in implementation and in ensuring that people are properly consulted and satisfied with the laws. The quality and depth of public consultation that takes place as part of legislative development will have an important effect. To date there is little evidence of steps to orchestrate the kind of outreach that is needed, yet the legislation provides an excellent opportunity for government to reach out to affected populations and citizens at large with a proactive confidence-building exercise that at the same time fulfils the promise of the NOGP to engage citizens in policy-making. Other stakeholders can play an important role in assisting government through organising events at the grass roots; MPs in their constituencies; CSOs through the civil society networks on oil that are beginning to emerge at the sub-regional level; international development partners by sponsoring relevant events and organising their own initiatives; as well as companies that have an important stake in ensuring improved information flow and citizens' participation. It is critical that the Ministry of Energy, through the PEPD, begins to implement systematic and widespread consultation on the new law in the months to come. This would greatly help reduce feelings of exclusion and suspicion about developments among people.

With regards to implementation of the legislative framework, especially as this relates to improved transparency in the sector, a key area is the need for stronger capacity across a range of bureaucratic agencies to engage constructively in debate; communicate their own priorities and views; and hold government and companies to account. Training programmes for the various actors, and other opportunities to boost their ability to perform their responsibilities effectively, are required. According to the World Bank paper discussed in Section 2, state bodies charged with monitoring the operations of oil companies, for instance the Ministry of Energy, PEPD and NEMA, must have clearly defined roles and responsibilities as well as sufficient technical capacity to carry out their roles and coordinate their actions effectively.¹⁹¹ Institutional support for NEMA to develop its capacity in responding to the oil discoveries is especially critical. As discussed in Section 4 of this report, the current disempowerment of local government officials at all levels from LC5 down to LC1, as well as those with particular technical roles such as district environment officers, is itself a source of tension, as some perceive that companies go over their heads to central government; and that security agency personnel have a greater voice on oil-related issues than elected officials. It

191 World Bank (2009). *Op. cit.*, pp.7–10.

is also eroding confidence in the political process at a local level, as citizens become disappointed either with their leaders' lack of effectiveness or their perceived corruption, which oil is seen to be exacerbating in the absence of more robust institutions and oversight.

6.1.3 Options for oil exploitation and production

Another specific issue currently faced in the oil sector where improved transparency is necessary concerns debate about the best means of exploiting Uganda's oil. As discussed in Section 2.1.1, this is currently under review, with original plans for the EPS set out in the NOGP most recently being shelved in favour of the possibility of a larger-scale refinery being built in the years to come; and/or a pipeline option. Given the enormous environmental and social impacts that are likely to result in whichever course is chosen, there is a need for wider transparency in this debate which currently rests behind closed doors at the Ministry of Energy together with key partners such as Norway; or in the boardrooms of Tullow and other companies involved. The Terms of Reference of the feasibility studies currently underway regarding the refinery should ideally have been published so that interested civil society activists as well as MPs and others had an opportunity to ensure that wider environmental and societal concerns were being explored to their satisfaction. In the absence of this, it becomes all the more important that the findings of such studies are shared through public consultation with enough time for citizens to be brought into the debate. Failure to do so will only exacerbate ongoing feelings of exclusion, as well as suspicion about the quality of final decisions. The World Bank paper notes that the most successful examples of environmental and social impact mitigation and monitoring involve early consultation and participatory monitoring practices at the local community level.¹⁹² That so many stakeholders actively want to be included in these debates is a very positive feature of the oil sector in Uganda and should as such be embraced by companies and government alike as enriching their own decision-making practices.

Recommendations

- Government and companies should improve information flow about oil and support civic education at all levels;
- Government should ensure that concrete strategies for transparency, in line with international best practice on “combating the resource curse”, are enshrined in the new legislative framework for oil. This should include transparency in new contracts and licences; institutional mechanisms for revenue collection and management; management of any Ugandan oil fund to be set up; and clarity on the respective roles and responsibilities of different oversight agencies;
- Government and companies should actively implement EITI, including through ensuring civil society participation;
- Government and parliamentarians should reach a timely conclusion with the oil legislative drafting process in order to avoid any ongoing “policy gap”, and related uncertainty and tension;
- Government, with support of parliamentarians and the involvement of civil society, should implement a nationwide communication campaign on the draft laws, ensuring effective public consultation;
- The capacity and independence of government agencies critical to successful management and improved transparency of oil should be strengthened, particularly that of NEMA, PEPD, the Ministry of Energy (including through creation of a functioning information officer and a petroleum database), and of local government officials in oil-affected districts;
- The capacity of parliamentarians, civil society and the media should also be strengthened. International development partners have a particular role to play in providing financial and technical assistance to such sectors in order to augment their capacity to promote positive outcomes from oil; and
- Initiatives should be implemented by government and companies to ensure wide public consultation on specific issues that arise, such as the current oil production feasibility studies; any new licences; as well as any upcoming EIAs.

¹⁹² World Bank (2009). Op. cit., p.10.

6.2 Delivering quality leadership

The arrival of oil provides a wake-up call to political leaders at all levels, reminding them that commitment to the public good over personal gain, and to the long-term developmental interests of Uganda as a whole over fragmented smaller goals, is essential in all aspects of decision-making and personal motivation. Oil has raised the stakes of political competition, and the potential for an escalation of conflict and subsequent reversal of development gains in the country has to be taken seriously. Leaders face a historic opportunity to reframe their approach where necessary, in order to counter such risks. Failure to do so, or continued “business as usual” approaches to public life, could prove disastrous. Oil has the potential to create and exacerbate divisions all too easily, as this report has demonstrated. Uganda’s leaders – whether in politics, traditional institutions, or those with influence in civil society and the media, need to adopt a “conflict-sensitive” approach to handling the issue – avoiding exploiting citizens’ hopes and fears about oil either for party political purposes, or to further their own personal fortunes or those of narrow constituencies.

6.2.1 The 2011 elections

As a major new industry in the country with widespread ramifications, it is inevitable that oil will feature prominently in debates leading up to the 2011 elections both at national and local levels. Citizens will feel greatly reassured if they see strong leadership that transcends party political or personal interests, especially on oil issues – and are clearly searching for such guidance and democratically-oriented authority. The current mood of cynicism, as illustrated for example by widespread doubts that the Electoral Commission can properly oversee free and fair elections, sounds a warning note however. Government must work especially hard in the coming months to ensure an impartial process in which people feel that their opinions and votes have been properly taken into account. Taken together, large-scale dissatisfaction with the 2011 electoral process and deepening mistrust in government’s handling of oil could prove destabilising.

6.2.2 Tackling corruption

Perceptions that corruption is entrenched at all levels are leading to a sense of acute mistrust with regard to the future of the oil industry. While anti-corruption discourse features prominently in political debate at the centre, the effects of related initiatives are hardly felt and levels of cynicism and mistrust remain high. Proactive efforts to enforce Uganda’s many laws and mechanisms against such practices are required, including at the LC1, 2 and 3 levels in districts where accusations are made that officials are acting as “gatekeepers” to company-related opportunities or illegally selling communal land; right through to any cases emerging at central government level. Such efforts would complement the improved transparency measures around the oil industry recommended above. The potential for corruption to increase the likelihood of conflict has been well documented and needs to be tackled urgently, especially with the arrival of oil as an aggravating factor.

6.2.3 Strengthening parliamentarians’ leadership role

Within parliament, there is a need for the NRC to boost the quality of its own engagement and leadership on oil issues, and to reach out to other parliamentarians such as those from affected districts, as well as elsewhere, to inform and debate upcoming policy issues more effectively. Working jointly with the PAC, which has already demonstrated activism on the issue (and whose function relates in particular to the revenue management aspect of oil), will also be important. It would be useful if MPs could develop a cross-party working group on oil issues. Other actors, particularly development partners, can play an important role in identifying opportunities to improve access to learning about the technical aspects of the oil industry and relevant policy initiatives for parliamentarians, so they are better equipped to play their role both in parliament and in their home constituencies. While some scattered initiatives have taken place to date, including seminars organised by USAID, the US NGO National Democratic Institute (NDI), and International Alert, no coordinated comprehensive support programme for parliamentarians on oil is yet underway.

6.2.4 Uganda leading the way to cross-border harmony

The cross-border relationship between the DRC and Uganda is a further issue where leadership will be important in the months and years to come. The recent increase in diplomatic relations between the two countries is positive and will need to continue if peaceful joint exploration of the offshore reserves known to lie in Lake Albert is to be realised. Inevitably the security dimensions of inter-state relations are hard to perceive. On the one hand, as some call for ongoing operations to wipe out the LRA, others fear any further military action could be counter-productive and lead to an escalation of violence; as well as the danger that a repeat of the 1990s Ugandan army involvement in mineral exploitation becomes a motivating factor. International development partners and companies should watch the situation closely to see how the overall state-to-state relationship is affected and what the implications for peaceful oil exploration will be.

One concrete area where more proactive steps are needed is follow up on the Arusha Pact, particularly as this relates to re-demarcating the border between the two countries. As discussed in Section 5 of this report, uncertainty about this border has the potential to escalate rapidly into conflict. While there are some reports that the process of re-demarcation is underway, it does not yet seem to have reached a conclusion.

Recommendations

- Leaders from within and outside politics should rise to the challenge presented by oil, emphasising the overall national developmental interests of Uganda over their own personal or political fortunes or those of narrow constituencies;
- Government, parliamentarians and civil society partners should take all necessary steps to ensure a sound electoral process in 2011, with appropriate support from development partners;
- All stakeholders should work hard to tackle corruption, including within local administrations in the oil-affected areas right up to higher levels of government – both by improving transparency in contracting and distributing other benefits related to oil – and by ensuring accountability where cases of transgression arise;
- Parliamentarians should create a cross-party working group on oil with support from civil society and international development partners and including both NRC and PAC members. They should proactively engage with other MPs from oil-affected districts, whilst at the same time developing their own leadership and expertise related to oil; and
- Government should continue its leadership in ensuring a harmonious relationship with the DRC, including through ongoing diplomatic initiatives and careful handling of the LRA conflict.

6.3 Promoting conflict resolution and national harmony

Oil has the potential to harden the tendency for Ugandan politics to play out along ethnic lines. This compounds broader trends such as the creation of an ever increasing number of districts, many of which have ethnic identities at their core, and a perceived favouring of President Museveni's own ethnic group and other westerners by government. The increasing prominence of "ethno-politics" in Ugandan political life is having a de-stabilising effect around the country, feeding into latent tensions and faultlines that are the legacy of colonialism and previous conflicts, as well as ongoing land disputes between different ethnic groups. Given the experience of other countries where oil has exacerbated such challenges, a special effort is required by all stakeholders to reverse this trend. The challenges are both profound and complex, but nevertheless go to the heart of ensuring oil contributes to peace and development in Uganda.

6.3.1 Re-asserting the "non-sectarian" agenda

A strong signal is needed from the government to get the original NRM "non-sectarian" agenda back on track, including as this relates to its own election strategies in the run-up to 2011; as well as its negotiation with different ethnically-based interest groups emerging around oil, such

as the Banyoro as well as the Balaalo. With regard to the Balaalo, specific initiatives to explore and resolve their current landlessness and geographic spread, and to counter perceptions about them, are required. Government and development partner support for local conflict resolution mechanisms will be important in the months and years to come – especially with regards to land conflicts, which are a feature of the entire Albertine Rift area and already clearly being exacerbated by expectations about oil, as discussed in Section 4 of this report – as well as the related visible trend of migration and settlement in the area. Companies should adopt a “conflict-sensitive business practice” approach, to ensure that their own activities do not exacerbate ethnic tensions.

6.3.2 Promoting solidarity among Ugandan and Congolese border communities

Any deterioration in relations between the DRC and Uganda is likely to have an immediate effect on local communities on both sides of the border – from practical obstacles to their frequent movement across the border e.g. for trade and fishing; through to socio-political tensions related to hostility. Current flashpoints found in the research for this report relate to fishermen, grazers, and different types of refugee populations found across the whole lakeside area, as well as specific tensions in Nebbi related to the Alurs/Lendu. Newer competitions related to oil have been expressed, especially perceptions that Congolese refugees have been privileged in securing job opportunities with the companies.

Although such tensions are low level, and must be seen against a backdrop of broadly amicable relations, there is definite potential for escalation. An added factor is the perceptions that Congolese in Ituri have of Ugandans, which this report was not able to explore in depth, but which are known to bear scars following the history of Ugandan involvement in conflict in eastern DRC in the 1990s. Given the shared challenges that local people are facing related to oil, support to initiatives aimed at fostering cross-border solidarity among Ugandan and Congolese border communities on oil governance and related issues would present a potential avenue in helping to counter any future conflict between these groups.

Recommendations

- All stakeholders should work to counter the increase in “ethno-politics” in national political discourse and at a local level, including by curtailing the strategy of creating new districts; and addressing perceived bias in government appointments towards westerners;
- Oil companies should pay particular attention to ethnic divisions in the localities where they are operating and the interaction their own operations may have with these, however inadvertently;
- Conflict-resolution initiatives which address specific local land conflicts, including those involving the Balaalo, should be scaled up and supported;
- Initiatives to promote national harmony more broadly should also be scaled up and supported; and
- Cross-border community-level solidarity initiatives between Congolese and Ugandan citizens should be supported.

Annex 1 - Methodology for qualitative survey

This survey was designed as a multi-level (district and community) participatory qualitative data collection exercise. Focus Group Discussions (FGDs), Key Informant Interviews (KIIs) and a document review were the main methods used to obtain data.

Survey areas

The survey had intended to cover a total of seven districts including Amuru, Arua, Buliisa, Bundibugyo, Hoima, Kanungu and Nebbi. However, data collection was not possible in Bullisa and Nebbi. Within each district, sub-counties, parishes and villages were selected on the basis of their proximity with oil exploration activities, with the input from the key informants at the district level.

Survey population

The data collection exercise involved only persons who were 18 years and above; and the survey population was segmented at two levels:

1. At district level, the survey conducted KIIs with district officials (especially local government officials both political and technical) and CSOs involved in natural resources issues.
2. At community level, the data collection involved individual community leaders within the local leadership structures and groups of community members. Here both KIIs and FGDs were conducted. The FGDs were categorised on the basis of livelihood activities: fishing, herding, business and cultivation, although men and women attended the same groups. The purpose for these segments was to capture the perspectives of both men and women involved in the various livelihood options.

Data collection

Key Informant Interviews (KIIs)

The number of key informants varied by district, but used 11 categories of administrative hierarchy. The KIIs at district level were conducted in English, while those at community level were conducted in the local language save for a few instances at sub-county level. All interviews were interpersonal and facilitated with an interview guide. The table below shows the levels where KIIs took place and the number of respondents realised in each district.

Table A: Categories of KIIs carried out in the survey

Level	Category of key informant	Amuru	Arua	Bundibugyo	Hoima	Kanungu
District	1. RDC or deputy	1	1	1	1	
	2. CAO or assistant	1	1		1	1
	3. Chairperson LC5 or vice	1	1	1	1	1
	4. District Commercial Officer			1	1	
	5. District ENR Office		2	2	2	1
	6. NGOs or CSO		2	2	2	1
Community	7. Chairperson BMU			2	2	
	8. LC3 or Sub-county Chief	2	1	1	2	2
	9. Sub-county Fisheries Officer		1		2	
	10. Local CBOs coordinator					
	11. LC1 or LC2 chairperson	2	2		2	1
	Total in each district	7	11	10	16	7

Focus Group Discussions (FGDs)

Five categories of community FGDs were conducted in each district: fishing community, business community, farming community, herding/pastoral community and community opinion leaders, as shown in the table summary below.

Table B: Categories of FGDs carried out in the survey

Groups	Amuru	Arua	Bundibugyo	Hoima	Kanungu
Fishermen or BMU	x	x	x	x	
Pastoralists/herdsmen (not Balaalo)	x	x	x	x	
Business community	x	x	x	x	x
Farmers groups	x	x			x
Community leaders			x	x	x

All FGDs were facilitated in local languages using a prepared discussion guide. Effort was made to ensure the participation of both genders, as summarised in the table below.

Table C: Categories of FGDs: respondents by gender and district

Gender of FGDs	Amuru		Arua		Bundibugyo		Hoima		Kanungu	
	M	F	M	F	M	F	M	F	M	F
Fishermen or BMU	7	10	10	-	15	-	79	17	-	-
Pastoralists/herdsmen	8	5	16	-	9	3	16	0	-	-
Business community	6	10	6	7	10	6	22	21	14	1
Farmers groups	16	1	9	3	-	-	-	-	27	34
Community opinion leaders	-	-	-	-	9	1	31	6	10	3
Total in each district	37	26	41	10	43	10	148	44	51	38



INITIATIVE FOR PEACEBUILDING

THIS PROJECT IS CO-FUNDED
BY THE EUROPEAN UNION.



International Alert – Uganda

Third Floor, Ruth Towers, 15A Clement Hill Road,
PO Box 70641, Kampala

Tel +256 (0)414 347200, Fax +256 (0)414 347204, Email uganda@international-alert.org
www.international-alert.org

ISBN: 978-1-906677-45-9