

# Oil Extraction and the Potential for Domestic Instability in Uganda

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**Abstract:** The exportation of oil offers tremendous opportunities for Uganda. It also poses several risks to Uganda's domestic security. Drawing on field research in Uganda, as well as archival research, this paper identifies three potential sources of domestic instability stemming from oil exportation: increased urbanization, unpredictability in tax revenue collection, and the formation of rebel groups. The paper concludes that government transparency is crucial in avoiding most of the pitfalls associated with oil extraction and makes several recommendations for improving transparency in Uganda.

## Introduction

This article explores the potential risks associated with oil development and exportation in Uganda. It is based on field research conducted in July 2009 as well as on archival research and simulations using established sources of data. This paper assesses the influence of oil extraction on Uganda's domestic security, noting the potential for a resource curse associated with oil exportation. The paper then identifies and discusses in detail three sources of domestic volatility that may arise as a result of oil development. The first factor is declining competitiveness of non-oil exporting sectors of the economy, and the increased urbanization associated with the decline of these sectors. The second factor is the potential for oil exportation to foster increased presidential power and a declining ability to collect tax revenues. The final factor is the susceptibility of oil to the formation of rebel groups. All three factors may encourage civil unrest and strife in Uganda if the negative externalities of oil extraction are not properly managed. The paper concludes that government transparency is crucial for avoiding the many potential pitfalls of Uganda's oil exploitation and offers recommendations for increasing transparency.

## Background: Oil Exploration, Discovery, and Exploitation in Uganda

Uganda confirmed the presence of significant oil reserves for commercial extraction in 2006. One billion barrels of oil in reserve have been confirmed.<sup>1</sup> Representatives from the UK oil and gas company, Tullow Oil (Tullow), believe that between one and two billion barrels exist in Uganda.<sup>2</sup> If extracted, those resources would put Uganda among the top fifty oil producers in

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<http://www.africa.ufl.edu/asq/v12/v12i3a2.pdf>

the world.<sup>3</sup> Exporting oil could be quite a boon to Uganda's economy – potentially doubling or tripling its current export earnings of two billion dollars a year.<sup>4</sup>

Oil reserves are predominantly located in the Lake Albertine Graben region between Uganda and the Democratic Republic of Congo (DRC). The Lake Albert region is an ecologically sensitive area with an enormous amount of biodiversity. It is also a politically sensitive area that lies between two countries with a history of violent conflict and border disputes.

Plans are somewhat formative, but Uganda intends to build a refinery to process its crude oil, and Tullow has said it anticipates production to begin in early 2012. The refined crude is intended for both domestic and export use, as the East African Community has announced plans to build an oil pipeline linking Rwanda, Uganda, and Burundi.<sup>5</sup>

### **Theory: Oil Development, the “Resource Curse,” and the Potential for Instability in Uganda**

While there are many benefits that could accrue to Uganda, oil exploitation also poses a multitude of threats to the country's security. Oil deposits straddle the border between Uganda and the DRC, increasing the value of their riparian boundary. This has increased tensions between the states, provoking conflict between the Ugandan Peoples' Defense Forces (UPDF) and the Armed Forces of the DRC (FARDC). Moreover, oil deposits are located near and within wildlife protection areas and environmentally sensitive regions. If not properly managed, environmental degradation could lead to local strife.

While these issues are important to the overall stability of the region, the primary security threat posed to Uganda lies in the domestic effects of large-scale oil exploitation. In many cases, sizeable petroleum reserves in less developed countries have not improved overall national economic performance. Indeed, for many petroleum-rich, underdeveloped states, exploitation has reduced the competitiveness of previously productive economic sectors, leading to declining wealth, social and political unrest, increasingly disaffected populations, emergence of rebel organizations, government corruption, and destabilized domestic security.<sup>6</sup> While not a deterministic relationship, access to such a valuable resource has pitfalls for less developed states lacking the capacity to properly develop the resource. In the following sections, we describe a phenomenon known as the “resource curse,” discuss how it may apply to Uganda, and highlight opportunities for avoiding the plight of so many other oil-rich developing countries.

The empirical connection between a state's petroleum endowment and its tendency toward poor economic performance and domestic unrest is well established.<sup>7</sup> This relationship has led some to claim that access to petroleum reserves is a “curse” for the endowed state. While there is nothing inherently destabilizing about access to large oil reserves, petroleum lends itself to mismanagement, yielding unfortunate economic and security consequences for the extractive state. As Uganda advances toward export capacity in the next several years, it faces many of the same hurdles as current export countries in avoiding the pitfalls of exploiting valuable resources.

President Yoweri Museveni's government claims to recognize the dangers inherent in the process, noting that Uganda intends to avoid the track taken by countries like Nigeria. Nigeria, after discovering and tapping enormous oil reserves in the 1950s, has been wracked by civil

war, economic stagnation, and petro-political terrorism. As a stark example, in the time that Nigeria has been exporting oil, its per capita income has remained stagnant, changing very little from its value of four decades ago.<sup>8</sup> Uganda hopes to avoid Nigeria's experience, and President Museveni has at least paid lip service to avoiding such misfortunes. Ideally, Uganda hopes to benefit from a more stable and sustainable economic development model, similar to Norway's. Norway's success in petroleum development has been the result of successfully depoliticizing the management of oil profits, making publicly transparent the process of the resource's exploitation, and structuring oil revenue investments to avoid many of the economic hazards that have befallen other large oil exporting countries.<sup>9</sup> Emmanuel Mutebile, Governor of the Bank of Uganda, who has worked closely with Museveni, highlighted the importance of responsibly managing the oil sector, stating "We must be Africa's Norway. We must manage our oil resources in the stellar manner in which Botswana has managed its wealth from diamonds."<sup>10</sup> However, the proper management of the resource is not easy. It is therefore worth outlining the issues that hold the greatest potential for causing domestic instability over time.

Conventionally speaking, the "resource curse" is a phenomenon in which macroeconomic forces create pressures for over-reliance on the oil sector, leaving other domestic economic sectors to deteriorate. Over-reliance then increases the state's economic susceptibility to dramatic swings in the global price of petroleum. Recent discourse on the resource curse highlights a number of political and sociological processes that lend petroleum extraction to increased civil unrest. Below, we discuss several of these issues as they relate to the current state of affairs in Uganda.

### *Declining Competitiveness of the Economy and Increased Urbanization*

While oil exportation can bring a great deal of revenue to the state, a massive inflow of oil revenue also puts undue strain on other productive sectors of the export nation's economy. This is especially true for less developed countries where nascent economic systems are too fragile to absorb large economic shocks. On its face, increased oil revenues and wealth brought to the export country are positive developments. However, as the demand for oil from foreign markets grows, so too does the demand for the export country's currency, pushing the exchange rate upward. As a result, the other export-oriented sectors of the oil-rich country's economy become less competitive.<sup>11</sup> To date, President Museveni has not provided a plan that clearly details how the government will attempt to manipulate these macroeconomic processes, although his public statements indicate his acknowledgement of such dangers. For example, referring to potential macroeconomic exchange rate pitfalls, Museveni recently stated, "Nigeria had this problem...it caused their exchange rate to appreciate. Uganda will not allow this."<sup>12</sup>

To remain competitive, states must invest heavily in improving the efficiency of other export sectors so that non-petroleum products sold in foreign markets can remain competitive. In most cases, this requires states to redistribute a substantial portion of oil revenues. States often have difficulty committing to this, as it is tempting to invest oil revenues back into the oil sector, especially when high prices promise large returns on continued investment.<sup>13</sup> Previously productive sectors are all too often ignored and therefore begin to deteriorate in efficiency, productive capacity, and profitability.

Like most African countries, agriculture composes a significant portion of Uganda's economy. In 2009, agriculture accounted for 25 percent of Uganda's gross domestic product with primary exports including coffee and tea. Considered in light of the fact that the global average of agricultural production as a percentage of GDP was less than 3 percent, it is clear that a critical portion of Uganda's GDP is reliant on agricultural output.<sup>14</sup> For its agricultural sector to remain competitive, Uganda must invest oil revenues to improve efficiency and increase crop yields. Like many Sub-Saharan African nations, Uganda is deficient in sophisticated irrigation systems, relying upon weather patterns and routine rainfall. With improved irrigation systems, reliance upon seasonal weather patterns should decrease, crop yields should increase, and agriculture should remain competitive in foreign markets, even as increased demand for oil exports pushes the country's exchange rate upward. According to the Ugandan Investment Authority (UIA), an investment institution which is semiautonomous from the Ugandan government, a portion of oil revenues will be invested in improving Uganda's irrigation systems in the hopes of improving the productive capacity of the national agricultural system.<sup>15</sup> However, the level of investment necessary to modernize agricultural practices is unclear, as this has not been publicly addressed by Ugandan government ministries. It is also not apparent what portion of the oil revenues will be made available to such programs.

In theory, investing in productive agricultural sectors is a positive mechanism that helps maintain the sector's competitiveness. However, there are potential detrimental consequences of such investment. For one, improving irrigation systems and beginning the process of commercializing agriculture will significantly reduce the manpower necessary to manage farmland. Should the Ugandan government invest heavily in this transition, a short-term result may be the reduction of necessary employment in the agricultural sector, raising the issue of how to compensate farm workers in need of transitioning to other occupations. UIA officials were questioned by the authors about this issue and responded simply that former farmers would be welcomed to move to the cities where they would be able to find other work.<sup>16</sup> Indeed this is a process that has played itself out in other nations as advances are made in agricultural productivity.

Increasing technological advancement of the agricultural sector may attenuate already rapid migration to urban areas in Uganda. Urbanization is often associated with domestic unrest and civil war, and such societal changes can be disruptive if not managed well. The movement of people to metropolitan centers increases the stress on fragile urban infrastructures.<sup>17</sup> This is especially true when population movements happen relatively quickly, as is already occurring in Uganda. As of 2009, 13 percent of Uganda's population lived in urban areas. The average annual growth rate of the urban population between 2000 and 2009 was 4.2 percent, compared to less than 3 percent worldwide. The growth rate in Uganda's urban population has been steady over the past four decades, averaging 5.7 percent between 1970 and 1990 and 4.1 percent between 1990 and 2000.<sup>18</sup> It is also one of the highest rates of urbanization in Africa. Between 1992 and 2003, the urban population in Uganda grew at a rate of 4%, compared to the rural population's growth rate of 2.7 percent.<sup>19</sup> Uganda's birth rate is currently the third highest in the world, and its urbanization rate is more than twice the global average.<sup>20</sup>

In addition to an increasingly urban population, Uganda has a young population. The median age in Uganda is a mere fifteen years old, the lowest in the world according to the

United States Central Intelligence Agency. Research has found that poor and disaffected youths are the most likely to turn to violence in order to redress socio-political grievances.<sup>21</sup> A young, growing, and increasingly urban population indicates the potential for civil strife in Uganda. The added stress of urban migration associated with oil production may only exacerbate the dynamics behind civil strife.

Updating and securing quality public systems in urban areas are important for cushioning the stress of urban migration and demographic changes.<sup>22</sup> Employment, shelter, road networks, sewage and electrical systems, access to clean water, communication systems, education programs, and other infrastructure systems are required to accommodate rising urban populations. Achieving this, however, requires a large investment of resources in public works that may not have been necessary without the discovery and exploitation of oil. Should the government fail to soften this societal transition, unrest and violence can result as people concentrate in Uganda's urban power centers. While emigration to Kampala, Kira, Gulu, and Lira has dramatically increased in the past decades, such population movements to Uganda's most populous cities should be expected to continue, potentially at much higher rates. Unfortunately, the National Oil and Gas Policy (NOGP) for Uganda has little explanation for how it will manage these indirect consequences of oil exploitation.<sup>23</sup>

### ***Increased Presidential Power and Instability in Tax Revenue Collection***

Under normal circumstances, governments are dependent upon tax revenues for funding their continued operation. In other words, the government is beholden to the public in order to maintain its hold on power. This is not to say that regimes are then required to provide quality governance in return for taxes collected. However, in all but the most strictly dictatorial regimes where power is highly concentrated, the reliance of the government on tax revenue creates a principal-agent condition in which a minimal return on the public's tax contributions is expected in the form of government programs and public works projects.

Yet, governments that have routine, and sometimes massive, access to oil revenue do not require as much in the way of tax revenue to fund their operations. Increasingly oil-rich regimes often become less dependent upon the people for their hold on power. This is especially the case when a government is a strong presidential system that is less reliant upon the cooperation between the president and the legislature, as is the case in Uganda. Power is becoming increasingly centralized and concentrated in President Museveni's hands, particularly because of the declining ability of local governments to levy and collect taxes.<sup>24</sup> Power plays by President Museveni have included the extension of constitutionally mandated term limits on his stay in office and the arrest of political opponents prior to elections. If Museveni gains access to substantial oil revenue, the combination of considerable oil funds and strong presidential powers could increase the ability of his government to remain in power indefinitely.<sup>25</sup>

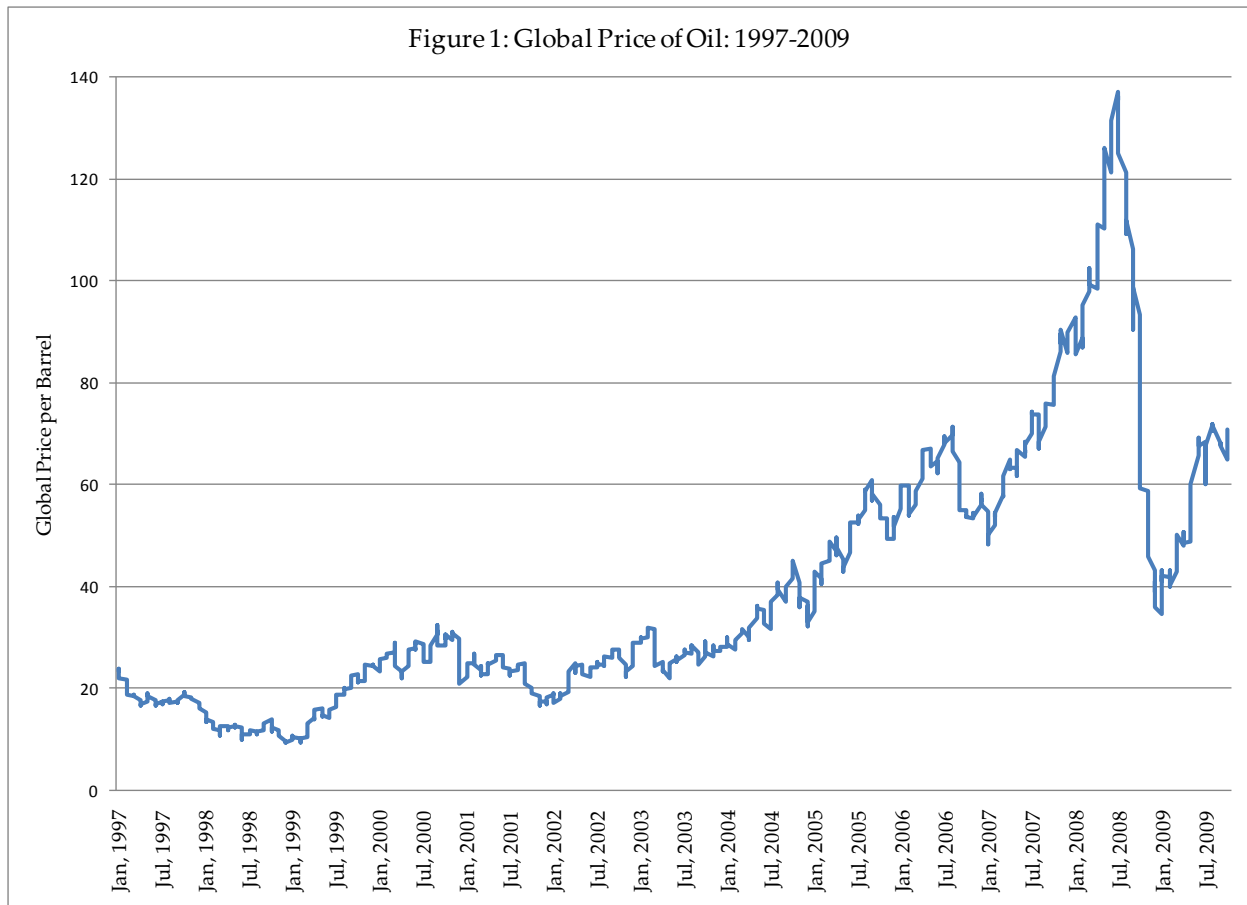
The fact that President Museveni has recently proclaimed that he sees no potential replacement to his role as president within his own party, the National Resistance Movement (NRM), leads one to believe that he has no plans to abdicate his position in the near future.<sup>26</sup> As the Ugandan news source, *The Daily Monitor*, reported, "[Museveni] told the NRM parliamentary caucus that he does not see an able successor from his own party to take over

from him as president. Mr. Museveni, who will have spent 25 years in power when his current term ends in 2011, told the MPs that whereas he would be happy to hand over power, he does not see anybody ready to assume the daunting task of leading this country."<sup>27</sup> Further, *The New Vision* indicated President Museveni's belief that naming a successor would be destabilizing to democracy in Uganda, reporting that "Museveni said grooming a successor was undemocratic and was tantamount to hijacking the democratic process of the NRM."<sup>28</sup> Some observers fear that access to massive oil revenues could solidify Museveni's hold on power. "Indeed, the oil curse could already be creeping into Uganda, as observed in...President Museveni's inference that, 'I discovered the oil and must ensure that it benefits all before I leave power.' Such a ploy of securing a life presidency could only be sustained through a very expensive patron-client system. In order to keep his sycophants happy, Museveni will have to handsomely dish out expensive goodies or allow them to indulge in corrupt practices."<sup>29</sup> Increases in corrupt behavior would essentially require secrecy in government dealings. A reduction in government transparency in oil and tax revenue management would then incentivize Museveni's government to become increasingly autocratic in its relationship with the public and political opponents, as has so often been the pattern in other oil producing states.

Additionally, if the Ugandan government turns too fully toward petroleum financing of its operations, spending projects may become overly sensitive to price fluctuations in the global market for oil. Oil is especially susceptible to price volatility, and the potential for dramatic changes in the price of oil over short periods of time, as is evident in Figure 1, can make it rather difficult to accurately forecast future government revenues. Inexact forecasts and volatile revenue flows detrimentally affect the ability of the government to fulfill its missions. Plummeting prices could force the Ugandan government to cease financing existing public works projects unless the government engaged in significant deficit spending. Incurring substantial debts is a risky practice given increased uncertainty surrounding the government's revenue streams and its ability to finance debts appropriately. The presence of a stabilization fund to draw upon in such times of declining oil revenues is an important measure to institutionalize. Yet, the government's NOGP makes little mention of future plans for a fiscal policy that includes such a fund.<sup>30</sup>

### *Susceptibility of Extraction to Rebel Activity*

Unlike other primary commodities such as gemstones, narcotics, timber, and some agricultural products, petroleum does not easily lend itself to the financing of rebel organizations. For example, diamonds and opium are easily extractable and sold on the black market, allowing rebel groups to flourish.<sup>31</sup> Oil, on the other hand, requires a complex national extractive infrastructure, production system, and access to international markets. Such capacity is not easily attainable for rebel groups.<sup>32</sup>



Source: United States Department of Energy ([www.energy.gov](http://www.energy.gov))

This is not to say, however, that rebels are unable to take advantage of petroleum extraction and distribution systems. The geographic location of Uganda's oil reserves is proximate to or directly overlaps areas of the country that have previously seen significant rebel activity. The activities of the Lord's Resistance Army (LRA) have taken place in the northwestern territories of the country, nearest to the exploration block licensed to Neptune Petroleum Ltd., a subsidiary of London-based Tower Resources. The LRA's bloody tactics and atrocious behavior toward the civilian populations is a potentially destabilizing element. The LRA has become known for killing and raping innocent civilians, abducting children for the purposes of serving as child soldiers, and maiming the bodies of noncombatants. Uganda and the DRC have engaged in cooperative attempts to combat the LRA, including the late 2008 joint operation code named "Lightning Thunder."<sup>33</sup> However, these joint military engagements have failed to destroy the LRA and have led to reprisals in the form of violence against civilians.<sup>34</sup> The group's continuing presence in the region and its unwillingness to end peacefully its war with the Ugandan government has continued the unrest in the northern Uganda-DRC border region.<sup>35</sup> While the LRA has been recently weakened by the Ugandan People's Defense Force (UPDF) attacks, its continued ability to persist and terrorize the northwestern Ugandan population remains a real threat to the region's stability and to Uganda's continued stable access to oil.<sup>36</sup>

Furthermore, the oil-rich region on the Ugandan side of Lake Albert was also the site of rebel activity that resulted in a great deal of insecurity in the 1990s. The Allied Democratic Forces, a rebel organization whose rationale for insurgency is somewhat unclear, engaged in violence against civilians. The group was vaguely organized along the puritanical Tabliq Muslim ideology and claimed that they had been discriminated against by the Ugandan government. While the fighting was rather limited, the violence perpetuated by the group caused approximately 160,000 civilians to flee their homes.<sup>37</sup> Still, the instability in the regions proximate to or directly overlapping with Uganda's oil reserves could be obstacles to the government's successful exploitation of the resource.

While oil is not easily exploited by rebel organizations to finance their operations, the extractive and distributive systems constructed by oil-rich states offer an attractive target for rebel violence and sabotage. Given that the regimes governing oil rich states often become increasingly dependent upon the continued development of the resource, rebel efforts to destabilize the government's extractive systems or cut off its distribution network can be fruitful efforts toward weakening the government's hold on power. Oil pipelines, refineries, pump stations, and other fixed emplacements offer easy targets for rebel attacks that hold the potential for significantly hampering the productivity of a regime's oil network. The Niger Delta offers an example of this. Recent attacks by the Movement for the Emancipation of the Niger Delta (MEND) rebel group are the latest in a long history of rebel attacks on the Nigerian oil network.<sup>38</sup> Another example is found in Colombia where the Revolutionary Armed Forces of Colombia (FARC) and the National Liberation Army (ELN) rebel organizations have engaged in bomb attacks on Colombia's oil pipelines, kidnappings of oil company employees for extortion, and civilian killings as part of their resistance campaigns.<sup>39</sup>

With the recent weakening of the LRA, there may not be significant rebel activity in the region currently. However, there is indeed a great potential for rejuvenated rebel groups to reconstitute themselves, or even for new rebel organizations to form around the petroleum exploitation issue. In fact, there are indications that social unrest could be on the rise in the region. First, as news of the oil deposits has spread, large numbers of people from outside the region have begun to move into areas that they expect to be rich in oil. The goal of such "squatters" is to obtain future oil rents from the government.<sup>40</sup> The presence of squatters generates animosities among the Banyoro people who are the longstanding inhabitants of the region on the Ugandan side of Lake Albert.<sup>41</sup> The arrival of Bafuruki, or "migrants," has increased fears that migration will eventually lead to a loss of jobs and political clout for the Banyoro. Recent reports of unrest have led the government to invest more heavily in establishing a stronger police presence in the oil-rich regions, in part to protect oil assets in the region from any potential social unrest.<sup>42</sup> Furthermore, given that the oil reserves have been discovered under what is largely Bunyoro land, the Bunyoro kingdom has called for a greater share of oil revenues as compensation for hosting the oil extraction infrastructure.<sup>43</sup> Yet, such an agreement would likely promote migration to oil rich regions, and the government hopes to avoid the unrest the produced by such migration. Recognizing this, the NOGP states that:

Experience from some countries shows that oil and gas producing regions may attract labour and threaten other sources of productivity thus leading to the abandonment and collapse of other sectors of the economy. It is therefore



possible that large numbers of people may move to the Albertine Graben where oil and gas activities are likely to be concentrated...this policy recognizes the need to guide population movements and settlements triggered by oil and gas activities. Local industries supplying the oil and gas activities should, as far as possible, be spread throughout the country to avoid concentration around typically oil and gas centres of activity. This policy will support enforcement of regulations restricting population movements...<sup>44</sup>

However, the process by which these decisions will be made and the mechanisms to implement them are rather unclear. Further, the NOGP is short on specifics for how revenues will be distributed across the various provinces within Uganda. Public perceptions of favoritism toward some regions over others could generate discord, especially given Bunyoro calls for a greater share of the resource distribution.<sup>45</sup> If, for example, oil revenues are shared equitably between Uganda's provinces, then Bunyoro grievances with the Museveni government should increase, because their land will be developed and exploited for the purposes of extraction. On the other hand, if it is determined that a preferential share of the revenue should be allocated to those in the oil-rich provinces as payment for the obligation of housing the oil extraction infrastructure, publics in other less privileged provinces may begin to decry the lack of equitability. Further, the continued arrival of increasingly large numbers of Bafurki in the Bunyoro territories could very well increase the level of strife in Uganda's oil rich provinces if the oil-rich territories receive a preferential share of the profits. Each of these situations could significantly increase the level of civil strife in the country. Yet, the NGOP has no developed mechanism for dealing with these likely outcomes of any future government revenue distribution practices. At the very least, the seeds of disaffection exist, which could undermine the Museveni government's ability to successfully extract oil without stoking further civil unrest.

Thus, Museveni must not only strike a balance in revenue distribution, but his government must also prepare its administrative capacity for managing the type of civil strife that could arise like those situations described above. Yet states with easy access to petroleum revenues feel less beholden to investing in the administrative organization of state territory, much like the tendency of states to avoid reinvesting oil revenues in their productive economic sectors.<sup>46</sup> Conversely, potential rebel organizations recognize the value of obtaining control of the government given the wealth generated from oil exploitation. Rebels are therefore more motivated to challenge the existing regime's hold on power. As Fearon notes:

States with high oil revenues have less incentive to develop administrative competence and control throughout their territory. So while oil revenues help a state against insurgents by providing more financial resources, compared to other countries with the same per capita income they should tend to have markedly less administrative and bureaucratic capacity. Furthermore, easy riches from oil make the state a more tempting prize (for rebels) relative to working in the regular economy.<sup>47</sup>

In essence, then, the presence of a profitable oil extractive system makes the overthrow of the government a more lucrative and attractive goal for potential rebel groups. Yet, at the same

time, governments have fewer incentives to counteract the proliferation of rebel groups by investing heavily in the administrative institutions that would help to maintain peace throughout the country. The combination of these two factors can make for a rather destabilizing situation in Uganda.

### **A Statistical Simulation of Uganda's Oil Production and the Likelihood of Civil Strife**

The above discussion strongly suggests that Uganda's future holds significant potential for civil strife. As an individual case, many of the notable factors that are associated with the resource curse are present in the country. These factors have been uncovered in countless qualitative case studies and increasingly in quantitative statistical research. One of the benefits of quantitative research on this issue is that it offers a powerful means of comparing Uganda's social, economic, and political realities with those of all other states that have experienced an oil boon. Indeed, recent quantitative studies have noted a statistically significant relationship between rising oil production and the likelihood of substantial civil unrest.

While we will not engage in a full statistical analysis here, previously conducted work offers an opportunity to extrapolate about Uganda's oil production future and its likelihood of unrest. One of the most recently published quantitative studies was conducted by Fjelde in 2009. She finds support for much of the conventional wisdom in the literature in terms of the factors that are significantly associated with civil unrest.<sup>48</sup> In her work, civil unrest is defined narrowly in order to capture rather high levels of domestic instability. The definition requires that a rebel group be formally constituted, it must have stated political grievances against the government, and it must choose to pursue those grievances in a violent manner for which there are at least twenty-five fatalities caused by clashes between rebel soldiers and the government's armed forces in a given year.

One of the clear benefits of Fjelde's research is that it uses as its basis Fearon and Laitin's (2001) statistical research on the independent predictors of civil war, which is one of the most well-regarded and widely cited articles on the topic. Furthermore, Fjelde's statistical results are largely consistent with those of previous work in the literature.<sup>49</sup> The advantage of her work is that she includes in her analysis an accounting of every sovereign state's level of oil production per capita and the level of government corruption in each state. The oil production and corruption variables in her analyses are consistently statistically significant and positively related to unrest. This means that her findings lend support to the "resource curse" argument: as a state's oil production per capita increases, its likelihood of experiencing the onset of serious civil unrest also increases. This pattern also holds for increasing corruption levels. Furthermore, Fjelde finds that civil wars are less likely to occur in established democracies and more likely under autocratic regimes.

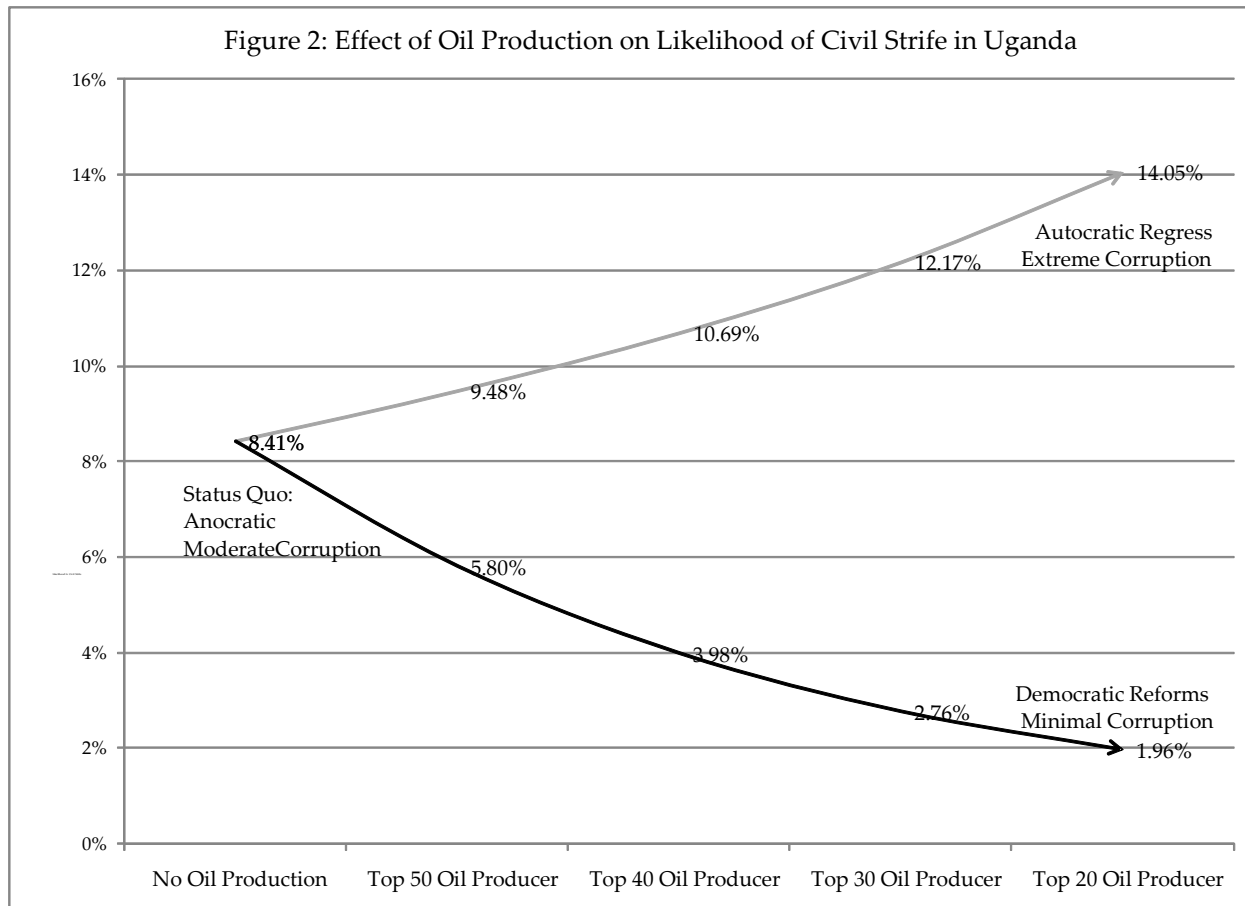
By using Fjelde's statistical model as a basis, we conduct simulations for Uganda's various "future realities" that include increasing levels of oil production and changes in Uganda's form and quality of governance. The benefit of this process is that a statistical simulation essentially judges the effect of the "resource curse" on Uganda by comparing Uganda's susceptibility to civil strife based on the experiences of all other countries in the world in the time period

analyzed. In this sense, a statistical simulation is a strong comparative tool that is not reliant upon the vagaries of single case comparisons.

Figure 2 below reports the results of our simulation. First, we hold all of the independent variables in Fjelde's model at their Ugandan equivalents. At the current point in time, this status quo situation includes zero oil production. Therefore, the oil production per capita variable takes a value of zero.<sup>50</sup> Furthermore, the Museveni government is currently considered to be an anocracy in that the country has neither a fully democratic nor a fully autocratic government and rather has elements of both democracies and autocracies.<sup>51</sup> In addition, Museveni's government is considered by most corruption ratings and risk assessment scales as being moderately corrupt.<sup>52</sup> Armed with this Uganda-specific data, we can say that compared to all other countries, Uganda's current status quo likelihood of experiencing a new onset of substantial civil unrest is approximately 8.41 percent, as is reflected in Figure 2.

As stated previously, the resource curse theory indicates, and Fjelde's statistical results corroborate, that increasing oil production has the effect of increasing the likelihood of civil unrest. However, this is not the full story. From the discussion above, we note that rising oil production also often causes regimes to engage in increasingly corrupt behavior and to retreat from democratic governance toward more authoritarian forms of rule. For Uganda, we are able to graph the effect of these theoretical tendencies on the nation's empirical likelihood of civil strife. Estimates of Uganda's oil reserves indicate somewhere between two and 2.5 billion barrels available for extraction. Yet, Uganda's productive capacity will be dependent upon the rate at which the Museveni government decides to extract the resource. Estimates of Uganda's production levels are harder to substantiate given their speculative nature. Still, Uganda's reserves should easily put it in the global top fifty producers. With increased rates of extraction, its global oil production rank may rise substantially.

The grey line graphed in Figure 2 indicates the expected effect on Uganda's likelihood of civil unrest by increasing its rate of oil production from the status quo to ever higher productive amounts that are consistent with the top fifty, forty, thirty, and twenty oil producing countries in the world. At the same time, the trajectory of this line is determined by equivalently increasing Uganda's hypothetical level of political corruption and authoritarianism to reflect the transformative process indicated by the resource curse theory.<sup>53</sup> The grey line clearly indicates the detrimental consequences of expanding oil production and degrading governance. If Uganda follows the pattern of other "resource cursed" nations, and Museveni's administration becomes increasingly closed, non-transparent, authoritarian, and corrupt, the result would be a significant increase in the likelihood of severe civil strife. Specifically, if Uganda transitions from its status quo position and increases its petroleum production capacity to levels consistent with the top twenty global producers, reaches high levels of political corruption, and continually concentrates power in Museveni's hands, the consequence is an increase in the likelihood of a new civil conflict onset from 8.41 percent to 14.05 percent. This is an astounding 67.1 percent increase in the probability of civil conflict.



As the gray line in Figure 2 indicates, however, growing oil production is not deterministically associated with an increased potential for civil conflict. The conflict-inducing effect of greater oil production is not only muted by beneficial governance reforms. Rather, if reforms are implemented that make the political system increasingly transparent, fight corruption, and facilitate a transition to open, competitive, and representative democracy, the likelihood of civil conflict drops dramatically from status quo levels to 1.96 percent.<sup>54</sup> This is a reduction of 76.7 percent in the probability of civil conflict in Uganda. These simulations thus indicate the importance of political reform in Uganda for managing the resource curse effect of increasing oil production.

### Policy Recommendations: Pursuing Government Transparency to Avoid Instability

Given the theoretical and empirical discussion of Uganda's susceptibility to the oil curse, we argue that the key to sustainable oil extraction and domestic stability in Uganda is government transparency. If Museveni's government makes its decisions public and is held accountable, it is more likely to choose anti-corruption policies that are favorable to the public interest. Government responsibility and accountability flow directly from the transparency of government activities to interested parties.<sup>55</sup> When important information is kept secret, the public, civil society, nongovernmental organizations, and even entire branches of government are unable to determine what monies are being channeled to the government and how fairly

and effectively those funds are being allocated. Important information that governments have often kept secret include oil company contracts, revenue shares taken by both oil companies and the government, and spending on government programs made available by access to oil revenues. When this information is not made publicly available, there is no way to make certain that potentially corrupt government officials are not exploiting their access to resource funds for personal gain. Transparency can go a long way toward softening the detrimental effects of oil extraction on other domestic industries, avoiding aggressive policies toward Uganda's neighbors, implementing environmentally sound mechanisms of resource extraction, and avoiding the resource curse.

Currently, the public perception of transparency in Uganda is quite low. However, the Ugandan government publicly acknowledges the importance of transparency. Its National Oil and Gas Policy purports that:

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.<sup>56</sup>

Other pieces of legislation in Uganda also provide for transparency in public offices. The 2005 Access to Information Act outlines a process by which Ugandans can acquire government information. Schwarte calls the act "one of the very few of its kind in Africa," but acknowledges the act is "diminished by a lack of clarity in drafting, the envisaged scope of application, and insufficient procedural guarantees."<sup>57</sup>

Despite legislative provisions for transparency, Museveni's government has kept much of its oil policy secret, specifically by failing to widely disclose revenue sharing agreements between the oil companies and the government. The revenue sharing agreement details what percentage the government will take once companies begin pumping and selling oil. Although it has reportedly released some details of the revenue sharing plan to members of Parliament on the National Resource Committee, it has not made the agreement available to Parliament as a whole or to the public.<sup>58</sup> Conflicting reports abound in the media as to the terms of the agreement. Tullow Oil founder Aiden Heavey recently stated that Uganda's take of oil revenue would be 80 percent, a deal quite favorable to the government.<sup>59</sup> But a British environmental watchdog organization, Platform, disputes those figures, claiming that internal figures within the government put its revenue share at 67 percent to 74 percent. Platform's own figures are even lower, arguing that based on external influences such as the price of oil and developmental costs, the government will receive 47.4 percent to 79.5 percent. Without such information about the revenue sharing agreement, independent experts and the public are unable to determine if the government is getting a good, or even fair, deal with the oil companies. Civil society is also unable to hold the government accountable for investing oil revenues into public goods if it does not know the government's share.

Although the NOGP expresses Uganda's intent to sign the Extractive Industries Transparency Initiative (EITI), it has not yet signed, nor is it even listed as a candidate on EITI's website. The EITI is a British initiative that has become a standard-bearer for good governance

in the realm of extractive resources. It assesses countries' compliance with various criteria, including widespread dissemination of information regarding revenues collected by governments from oil companies. It also provides for civil society and peer reviews of governments' oil policies. Before countries become candidates for EITI, they publish a work plan outlining how they intend to comply with EITI's provisions. Uganda has not published such a plan.<sup>60</sup> Government officials have not formally begun the process of joining EITI, claiming that it does not make sense to start proceedings until the framework on managing oil revenue is updated. Also, no oil company exploring in Uganda has signed EITI, although Tullow has expressed interest in doing so. Furthermore, the NOGP itself cannot fully ensure transparency, as it is more a statement of principles than a guide to good governance.<sup>61</sup> Uganda must take bold, specific measures if it is to credibly communicate its commitment to transparency and a sustainable oil policy, such as joining and implementing the policies outlined by EITI.

Transparency is particularly important to communities local to the extraction sites. The *Independent* reports that "according to the Mining Act, eighty percent of oil revenue goes to the national government, seventeen percent goes to local governments, and three percent goes to landlords." However, communities within the Bunyoro Kingdom are asking that anywhere from 15 percent to 50 percent share of the revenues be distributed to locals.<sup>62</sup> The Bunyoro Kingdom's traditional territory covers the Lake Albert area, and therefore local communities in the kingdom argue that they deserve a larger share of oil revenues. In fact, many respondents in districts surrounding the oil said that they should be given a greater share of revenue, according to survey by the NGO International Alert. Naturally, members of parliament have made statements about the distribution of benefits according to whether their districts are located inside or outside the regions where exploration is occurring. MPs from districts outside the Lake Albert area claim that oil should be thought of as a national, not local, resource, and revenues should be distributed accordingly. Until more specific legislation is passed and the government announces the revenue sharing agreement, identity-based tension persists over how oil profits will affect local communities versus Uganda as a whole.

Not all relevant experts interviewed for this manuscript believe the government is maliciously secretive about its oil extraction policies, especially regarding the production sharing agreements. Daniel Rutabingwa of the African Development Bank expressed that failure to disclose revenue sharing information is an effort by the government to protect the industry. Other individuals noted that Uganda is new to oil exploration and that the government is not yet fully equipped to produce a transparent policy. Still, to obtain compliance with the principles of EITI, Uganda will eventually need to offer more information about the production sharing agreements.

Ugandan policy has a chance to implement increased transparency in the near future, as the government plans to develop additional legislation to manage oil activities and revenues. The Minister of Energy and Mineral Development has reported that such legislation will be passed in the near future.<sup>63</sup> The legislation provides an opportunity to inject transparency into the current policy. To date, however, no such legislation has been enacted. The Minister of Finance claims that signing and implementing the principles of EITI is not appropriate until legislation

regarding oil management is passed. Once this pending legislation is adopted, the government will go a long way in building public confidence if it takes measures to implement EITI.

Even if the government becomes more transparent in its decision-making, however, it does not necessarily follow that the Ugandan public will be able to hold the government accountable. There exist a number of challenges in keeping the public informed about policies and the influence of oil extraction. Current Ugandan law may overestimate the ability of the public to acquire information, and civil society organizations frequently argue that the public “lacked the basic competencies and knowledge to get meaningfully involved in the decision-making processes that affect their lives.”<sup>64</sup> Uganda lacks much of the infrastructure necessary to communicate information and improve accountability. Most of the public facilities do not have internet or other telecommunication systems. The rural areas surrounding the oil extraction sites are especially deficient in this regard. Much public legislation, written in English, is only accessible to a small number of Ugandans, as the government acknowledges. Overall, the ability of the public to obtain specific information about the petroleum policies is quite limited. If the public is unable to acquire knowledge of oil companies’ practices, they cannot demand that the government implement policies to improve public works. Government frustrations that stem from these inherent deficiencies may then make the secretive backroom dealings a more attractive means of doing business. However, as the statistical results above indicated, such corrupt and autocratic tendencies can only make costly civil conflict more likely.

## Conclusion

The extraction of oil has the potential to provide tremendous economic benefits for Uganda. It also poses extraordinary challenges to Uganda’s domestic security. Oil exportation may increase the value of Uganda’s currency, rendering other sectors of the economy less competitive. If the government does not reinvest revenues into public works to soften the blow of economic change, domestic instability may ensue. Uganda must be aware and plan for increased urbanization and demographic changes resulting from the economic transformation that may accompany oil exportation. It should also be wary of the potential for rebel groups to form and target oil infrastructure.

The Ugandan government can take a number of measures to mitigate the risks associated with oil extraction. Transparency is crucial to mitigating much of the potential domestic instability arising from oil exploitation. The government should make known its planned responses to increased urban migration and the need for new jobs for newly arriving rural migrants. In addition to transparency is the political will and capacity to implement good policy to cushion the social impact of oil exploration. Uganda should engage in and publicize welfare programs to ease social changes resulting from the substantial shock to the economy from a productive oil sector. It should also implement fiscal policies to reinvest oil revenues into competitive sectors of the economy.

There should be provisions made for an increased role of civil society in monitoring the government’s policies. International Alert, a global non-governmental organization operating in Uganda, calls for a resource and information office to be set up in the Ministry of Energy to disseminate information in more languages and through various media.<sup>65</sup> Uganda would also be well-served in the realm of transparency to become a candidate for EITI. Pursuing these

policy recommendations will prove beneficial to Uganda in avoiding the experience of so many other developing nations that have been blessed with access to abundant petroleum reserves and seemingly cursed with the inability to manage the riches that oil can provide.

## Notes

- 1 Wakabi 2011.
- 2 Meijers and Demetriou 2009.
- 3 Kasita and Temmerman 2009.
- 4 International Alert 2009.
- 5 Denge 2011.
- 6 See Fearon 2005, Karl 1997, Humphreys 2005, Humphreys et. al. 2007, Ross 1999, 2001, 2004a, 2004b, 2007, 2008.
- 7 Fearon 2005, Karl 1997, Ross 1999, Sachs and Warner 2001.
- 8 For global data on national economic measures for the post-World War II era including gross domestic product (GDP), GDP per capita, and import and export volumes, see Gleditsch 2002.
- 9 Velculescu 2008, Wigglesworth and Kennedy 2007.
- 10 Muhumuza 2010.
- 11 Ebrahim-zadeh 2003, Ross 2001.
- 12 Muhumuza 2010.
- 13 Sachs and Warner 2001.
- 14 World Bank 2011.
- 15 Ministry of Energy and Mineral Development 2008, Mutende 2009.
- 16 Mutende 2009.
- 17 Cincotta, Engelman, and Anastasion 2003.
- 18 United Nations Population Division.
- 19 Grant 2005.
- 20 CIA 2011.
- 21 Cincotta, Engelman, and Anastasion 2003.
- 22 Such public works projects would include improving the country's transit system, especially its roads, the availability of clean water and electricity, and improved security systems in the metropolitan areas. If significant migration to metropolitan areas occurs, these programs will help to ease the transition.
- 23 Ministry of Energy and Mineral Development 2008.
- 24 Manyak and Katono 2010.
- 25 Uganda's political system is not strictly autocratic nor is it fully democratic and is more usefully described as an anocracy, which is a regime type that displays both authoritarian and democratic characteristics (Marshall and Jagers 2002). These characteristics are sometimes contradictory and have been shown to be the regime type most closely associated with instability (Hegre et. al. 2001). Anocracies also tend to be highly



personalistic, relying on the leadership of the executive to function effectively. However, such personalistic, anocratic systems are prone to corruption and bribery for the executive to maintain his or her hold on power. Under such conditions, access to enormous oil revenues, like those expected in Uganda, could be highly susceptible to government mismanagement.

26 Wanyama 2009.

27 Ibid.

28 Mukasa 2008.

29 Okumu 2010.

30 The importance of creating a stabilization fund is apparent in an example provided by Chad. With assistance from the World Bank and the International Monetary Fund, Chad agreed to create a stabilization fund in which excess revenues would be set aside as reserves for future use during economic downturns or budget shortfalls, and Chad would receive a loan from the World Bank to produce a pipeline that would allow it to export its crude through Cameroon to the Atlantic Ocean (Carrington and Milverton 2006; New Vision 2009). However, while several oversight and regulatory bodies were created to effectively manage the oil network and the stabilization fund, these steps have not been able to avoid wasteful uses of revenues to corruption and conflict.

31 See Lujala et. al. 2005; Snyder and Bhavnani 2005. The literature connecting petroleum endowments to civil unrest is a subset of a broader literature on the relationship between national economies dependent upon primary commodities and their tendency to produce civil war. For examples see Collier and Hoeffler 2004, Humphreys 2005, Humphreys, Sachs, and Stiglitz 2007, Ross 2004a, 2004b, 2008, and Fearon 2005 among many others.

32 One way in which rebels have been able to profit directly from stealing oil has been through the process of oil bunkering in which oil is siphoned from pipelines and sold on the black market. Rebels in Nigeria have used oil bunkering in taking advantage of the state's existing oil network. For descriptions of this process, see Walker 2008. Still, the process of oil bunkering is complex and requires significantly greater capacity than is available to most rebel organizations.

33 Gettleman and Schmit 2009.

34 Rice 2009.

35 Gettleman and Okeowo 2008, Johnson 2009.

36 Johnson 2009.

37 Hovil and Werker 2005.

38 CNN 2009.

39 Hanson 2009.

40 Kajwenge 2009.

41 In addition, the lack of clarity in Uganda's clan-based property rights system coupled with unclear, legally recognized divisions between separately owned land holdings has made the increased presence of squatters a rising problem for regional security.

42 Izama 2009.

- 43 Bariyo 2010, Kajwenge 2009.
- 44 Ministry of Energy and Mineral Development 2008.
- 45 Bariyo 2010.
- 46 Fearon 2005, Humphreys 2005, Humphreys et. al. 2007, Karl 1997, Ross 2004a, 2004b.
- 47 Fearon 2005, 487.
- 48 For instance, Fjelde accounts for economic factors such as per capita wealth, political factors like the democratic or autocratic nature of state governments, ethnic and religious compositions of countries, and many other variables.
- 49 For readers interested in technical issues regarding the statistical model, the approach used by Fjelde is standard in the literature. Her dependent variable is dichotomous, coding the onset of civil unrest as defined above for every sovereign state in the world for every year during the 1985 to 1999 time period. The analysis includes standard independent control variables, and the models specifications remedy common concerns for reverse causality, autocorrelation across observations, and she includes several alternative specifications in order to be certain that her results are robust. For further information about the statistical model used for the simulations conducted herein, see Fjelde 2009, Table 1, model 2.
- 50 The data for the oil production variable used by Fjelde is provided by Humphreys 2005 and records the average barrels of oil produced per day per capita.
- 51 The regime type data are taken from the Polity IV dataset (Marshall and Jaggers 2002) which codes regime types on a +10 to -10 scale for which the most democratic nations take a value of +10. This number becomes lower as states become less democratic, sliding to the extreme of -10 in the most fully autocratic nations. The Polity IV dataset codes its values based on a number of factors including the relative openness of executive recruitment, the level of constraints on executive authority, and the vitality of political competition.
- 52 The scale used by Fjelde is the International Country Risk Guide which is published by the Political Risk Services Group. This guide measures government corruption based on the assessments of country experts and takes into account the prevalence of patronage, bribery, nepotism, non-transparency in government funding allocations, and extraordinarily close ties between political leaders and businesses. While other corruption indices are available, the rating scales across indices are very similar to one another in terms of Uganda's overall corruption rating.
- 53 Functionally, Uganda's status quo corruption level takes a value of four out of a maximum of six. Its status quo autocracy level is zero on a dichotomous scale from 0 to 1. Thus, this graph reports corruption increases from 4 to 4.5, 5, 5.5, and 6 to reflect an increase from moderate levels of corruption at the status quo to maximal amounts of corruption in Uganda. Furthermore, the autocracy values are increased from 0 to .25, .5, .75, and 1 to reflect a transition from anocratic government to increasingly high levels of authoritarianism. These incremental increases in corruption and autocracy comport directly to the respective oil production values reported on the x-axis.
- 54 Functionally, this line reports corruption decreases from 4 to 3, 2, 1, and 0 to reflect a decrease from moderate levels of corruption at the status quo to minimal amounts.

Furthermore, the democracy values are increased from 0 to .25, .5, .75, and 1 to reflect a transition from anocratic government to increasingly high levels of democracy. These incremental changes once again comport directly to the respective oil production values reported on the x-axis.

- 55 While we focus here on issues of transparency, we do not wish to diminish the importance of policy reforms that could increase government accountability. Rather, we simply posit that the first and most important step in this process is opening access to vital information. Without increased transparency, reforms that focus on government accountability and responsibility become less meaningful.
- 55 Ministry of Energy and Mineral Development 2008, Section 5.1.3.
- 56 Schwarte 2005.
- 57 International Alert 2009.
- 58 Kasita and Temmerman 2009.
- 59 Allen 2008.
- 60 International Alert 2009.
- 61 Ibid.
- 62 Ibid., 26.
- 63 Schwarte 2008, 11.
- 64 International Alert 2009, 79.

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