Natural Resource Governance Institute

Resource Governance Index

2021 Resource Governance Index
Uganda

Oil and Gas

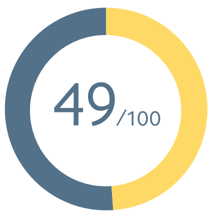
The governance of Uganda's nascent oil and gas sector scored 49 points in the 2021 Resource Governance Index (RGI), increasing by five points from the 2017 RGI. This was driven by improvements in revenue transparency, governance of the Uganda National Oil Company (UNOC) and reporting on the performance of the Petroleum Fund. Despite the positive upward trend, challenges remain, placing the governance of Uganda's oil and gas sector in the "weak" performance band of the RGI.

- Oil and gas licensing received a "failing" score, hampered by the absence of a cadaster, lack of beneficial ownership rules on public disclosures and the government's failure to disclose contracts with oil and gas companies.
- Governance of local impacts placed in the "poor" performance band, with access to environmental and social impact assessments limited by the requirement to submit an application and pay a fee in order to access information on assessments.
- Although numerical fiscal rules are documented in a public policy, these are not enshrined in law and there is no adherence requirement or monitoring by the government.
- Despite improvements to the governance of the Petroleum Fund, laws regarding deposits, withdrawals and investment rules scored as "poor" and "failing."

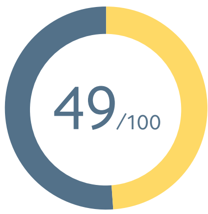
Uganda oil and gas: 2021 Resource Governance Index and component scores

PERFORMANCE BANDS

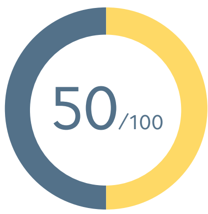
- GOOD Scores over 75
- SATISFACTORY Scores 60-74
- WEAK Scores 45-59
- POOR Scores 30-44
- FAILING Scores under 30



VALUE REALIZATION
Measure of the quality of governance regarding allocating extraction rights, exploration, production, environmental protection, revenue collection and state-owned enterprises



REVENUE MANAGEMENT
Measure of the quality of national budgeting, subnational resource revenue sharing and sovereign wealth funds



ENABLING ENVIRONMENT
Measure of the general quality of governance in the country

2021
Resource Governance Index

RESOURCE GOVERNANCE INDEX RESULTS SUMMARY

Governance of Uganda's oil and gas sector shows modest improvements

Oil discoveries in Uganda amount to around 6.5 billion barrels, mostly located in the western part of the country with confirmed reserves of over 1.4 billion barrels of oil. Exploration is ongoing and Uganda's government has pre-qualified additional extractive companies to which it will allocate new blocks, raising optimism for further discoveries.

While Uganda is not yet producing oil, the government has been building an institutional framework and infrastructure, with production projected to reach 230,000 barrels per day (bpd) by 2025, making it a major player in Sub-Saharan Africa. Uganda is, at the time of publication, finalizing the front-end engineering design of a 60,000-bpd refinery project and industrial park, with the refinery slated to begin operations in 2026. The East African Crude Oil Pipeline is under construction, and will transport Uganda's oil to Tanzania's ports for shipping, despite protests over the loss of biodiversity and displacement of local populations.

As Uganda looks to become a new producer, solid governance of its oil and gas operations will become increasingly crucial to the success of the sector, and to translating oil revenues into sustainable and inclusive development. The 2021 RGI assesses the state of governance until December 2020, the period when research ended.

Uganda's oil and gas sector scored 49 points in the 2021 RGI, up by five points since the 2017 RGI. While the sector placed in the index's "weak" performance band, increases in both value realization and revenue management show slight improvements to the governance of the sector. Taxation governance placed in the "good" performance band, but issues, especially around licensing and the management of local environmental and social impacts, still exist.

Uganda's oil and gas sector 2021 Resource Governance Index scores

	2017 RGI score	2021 RGI score	Trend
RGI COMPOSITE SCORE	44	49	5
VALUE REALIZATION	42	49	7
Licensing	35	27	-8
Taxation	72	78	6
Local impact	50	38	-12
State-owned enterprises	13	53	40
REVENUE MANAGEMENT	42	49	7
National budgeting	48	43	-5
Subnational resource revenue sharing	.	52	.
Sovereign wealth funds	36	51	15
ENABLING ENVIRONMENT	47	50	3
Voice and accountability	50	50	0
Government effectiveness	55	46	-9
Regulatory quality	67	58	-9
Rule of law	68	70	2
Control of corruption	23	20	-3
Political stability and absence of violence	35	44	9
Open data	29	60	31
LAW	49	57	8
PRACTICE	38	39	1
GAP (PRACTICE LESS LAWS)	-11	-18	-7

VALUE REALIZATION

Improvements in value realization driven by strengthened governance of taxation and the national oil company

The RGI defines value realization as the governance of the allocation of extraction rights, exploration, production, environmental protection, revenue collection and state-owned enterprises.

The licensing subcomponent received a "failing" 27 points in the 2021 RGI. The oil and gas sector lacks a maintained cadaster, meaning there is no centralized and publicly available registry of licenses with information on the areas allocated and which companies operate in those areas. There are also no rules that specify the disclosure of contracts signed with extractive companies, and the government has not disclosed any contracts so far. The government should ensure that an up-to-date cadaster is available online to provide greater transparency around the sector, including on the terms agreed in signed extractive contracts. Contractual information allows civil society organizations and other key stakeholders to develop an in-depth understanding of whether the government is getting a good deal for the country's oil, what revenues and royalties could be obtained once production starts, and who the owners of extractive companies are. While the 2013 Petroleum (Exploration, Development and Production) Act does specify that beneficial owners should be listed when companies apply for licenses, there is no public disclosure requirement mentioned. To follow best practice, Uganda's government should ensure that beneficial owners are disclosed publicly, which would allow the public to understand who the real owners of extractive projects are, and to prevent tax and revenue leakage once production begins.

Governance of taxation has increased by 6 points since the 2017 RGI, placing in the "good" performance band with 78 points. As oil production and exports haven't started yet, related indicators were not assessed in the 2021 RGI and do not impact the score. Improvements since the last assessment stem from public documents setting out information on royalty rates and production sharing arrangements. Nonetheless, the government should enact both within the legal framework to ensure their enforcement. Uganda joined the Extractive Industries Transparency Initiative (EITI) as an implementing country in 2020, as part of the country's plans to strengthen transparency of its oil and gas sector. The government has until early 2022 to disclose information in line with the 2019 EITI Standard, and should take this opportunity to create an environment that will allow for systematic disclosure of extractive sector information moving forward.

The governance of Uganda's environmental and social impacts scored a "poor" 38 points. While extractive companies are required to commission environmental and social impact assessments, as well as environmental mitigation plans, the public disclosure of these documents is problematic. Although the assessments should be made public once submitted to the National Environmental Management Authority (NEMA), with Section 146 of the 2019 National Environmental Act requiring that they are publicly accessible, citizens can only access them by filing an official request and paying a prescribed fee. This means that disclosures are not truly public as they are contingent on approval and might pose a financial barrier to some applicants. NEMA should ensure that access to environmental and social impact assessments and environmental mitigation plans is free and without restrictions, so that citizens, civil society organizations and all key stakeholders can gain an understanding of the wider social and environmental impact of the country's oil and gas sector.

The governance of the state-owned Uganda National Oil Company improved, moving from a "failing" 13 points in the 2017 RGI to 53 points in the 2021 RGI. Incorporated in 2015, the company has in the past six years scaled up both its operations and its legal framework. While UNOC does not yet produce oil itself, it has been active in developing its downstream supply and distribution operations.

Before starting production, the government should ensure UNOC continues to strengthen its legal framework in several areas. There are currently no laws in place requiring transparent financial reporting or the disclosure of annual reports or financial statements. Disclosing financial information is essential to allowing citizens to understand how the oil and gas sector is managed and how revenues are transferred or spent. Despite some rules around commodity sales, there is no legal framework specifying how UNOC should select the buyers of its oil, or that information on oil sales should be made public. Implementing a robust commodity sales framework is key to allowing the public to understand how oil is sold and to get a full picture of revenues in order to help prevent mismanagement or misappropriation.

REVENUE MANAGEMENT

Ample room for improvement remains

In terms of governance around national budgeting, Uganda's government has disclosed both national debt levels and the national budget, but has not yet passed a law setting a numerical fiscal rule. Fiscal rules can help the government take a more long-term approach to spending resource revenues and contain the ability to overspend when commodity prices are high. While the Charter for Fiscal Responsibility adopted in 2015 set numerical targets, as a public policy document, it is not legally enforceable. In addition, there is no firm requirement for the auditing of the government's adherence to fiscal rules, and no oversight mechanisms to ensure this. Uganda's government should therefore pass a law establishing fiscal rules accompanied by appropriate auditing mechanisms to ensure compliance.

The 2021 RGI assessed the governance of the Petroleum Fund and its sub fund, the Petroleum Revenue Investment Reserve (PRIR). Rules are in place mandating frequent financial reporting, which have been matched by disclosures, showing signs of best practice. The fund is required to produce an annual report and financial statements, which are audited by the Auditor General and reviewed by parliament. Positively, during the assessment period, the Petroleum Fund did publish its annual report, which was audited and presented for discussion in parliament.

The fund does not have robust numerical rules governing withdrawals and there are no publicly available legal requirements detailing what asset classes can be invested into, and which are prohibited. There are also no rules prohibiting investments into domestic assets, and these investments do not have to be approved by the legislature. This opens the possibility for domestic investments to be made for political reasons, which could lead to conflict of interests or corruption. The government should ensure that more robust rules are passed regarding deposits, withdrawals and assets that can be invested in, and combine this with strong disclosure rules so that citizens can scrutinize decisions and identify any mismanagement or misappropriations of funds.

ENABLING ENVIRONMENT

The index's third component draws on data from credible external and public sources, including the Worldwide Governance Indicators and the Open Data Inventory. This component covers broader governance indicators that affect activities in all sectors.

Uganda's enabling environment scored a "weak" 50 points. While the rule of law and open data subcomponents both placed in the "satisfactory" performance band, issues remain. These include widespread perceptions of corruption, which are also present in the extractive sector. Uganda's government should tackle this by strengthening institutional mechanisms aimed at preventing corruption and violent escalations and abuses in regions rich in oil and gas.

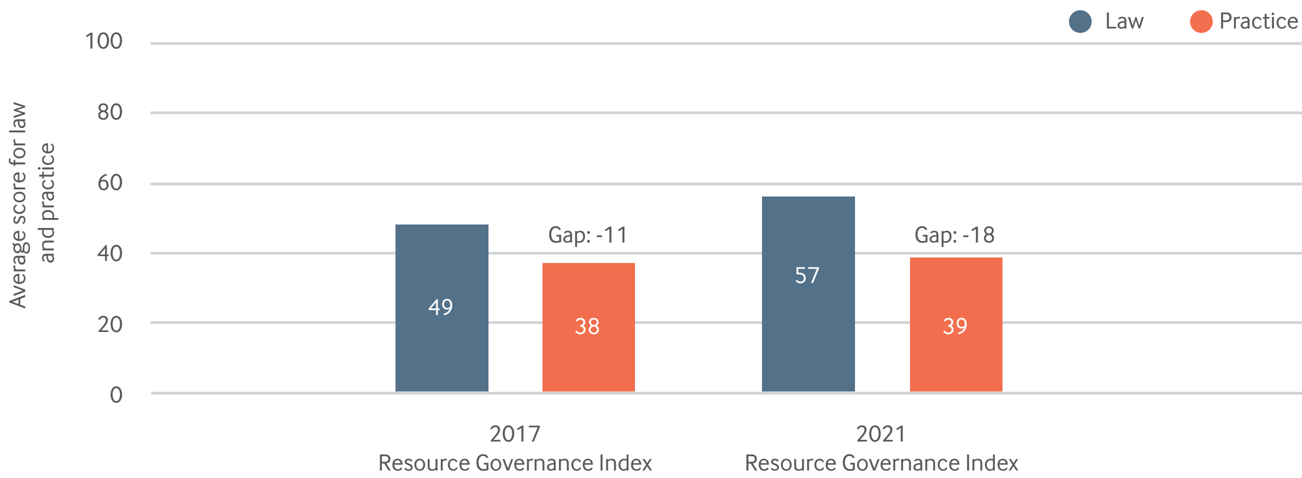
LAW AND PRACTICE SCORES

The gap between the legal framework and its enforcement widens

The implementation gap between enacted laws and their enforcement in practice widened from -11 to -18 between the 2017 RGI and 2021 RGI. While the robustness of Uganda's extractive legal framework improved, no major change was observed in the implementation of these rules. The improved law score was largely driven by the establishment of rules relating to UNOC's future operations.

At the subcomponent level, the gap between law and practice was the largest in the governance of licensing, where rules related to pre-licensing rounds were not matched with disclosures, and in the governance of local impacts, where a lack of disclosures of environmental and social impact assessments and of environmental mitigation plans resulted in a practice score of 0.

Evolution of the gap between law and practice in Uganda's oil and gas sector



COMPARISON BETWEEN MINING AND OIL AND GAS

The mining sector is better governed than the oil and gas one, but weaknesses remain in both

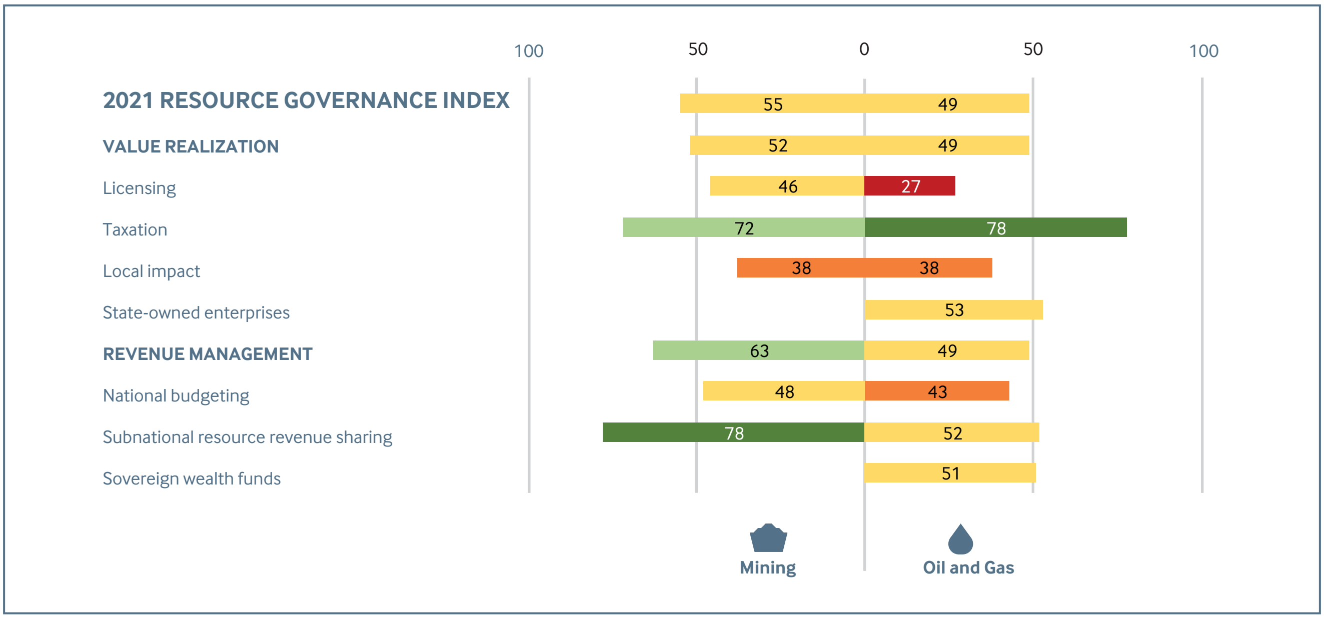
In addition to the oil and gas sector, NRGI also assessed governance of Uganda's mining sector (presented in a separate profile).

The mining sector, assessed for the first time in the RGI, scored 55 points, compared with 49 points scored by the oil and gas sector. While the scores of both sectors placed in the "weak" performance band, differences remain at the subcomponent level. The entire mining sector has an online centralized cadaster in place, which discloses allocated areas, operators, durations of contracts and additional information. This allows civil society organizations and private sector actors to better understand the status of the sector and provides greater transparency in mining resources and operations. The government should establish a cadaster for the oil and gas sector to increase transparency and accountability in the sector, as no corresponding registry of licenses currently exists.

Both sectors have requirements for companies to submit beneficial ownership information to the government when applying for licenses, but there is no indication of this information being disclosed publicly. Neither the 2003 Mining Act nor the Petroleum (Exploration, Development and Production) Act of 2013 require public disclosures of the real beneficial owners of extractive companies. Laws prohibiting public officials from owning assets in the mining sector and all mining sector companies exist, but given opacity and lack of public scrutiny of financial assets disclosures, this assessment could not confirm their application.

Finally, the governance of social and environmental impacts in both sectors was assessed as "poor." As disclosures are under the purview of NEMA, the government must ensure that rules are passed to enable free and unrestricted access to environmental and social impact assessments and environmental mitigation plans.

Comparison between Uganda's mining and oil and gas sectors in the 2021 Resource Governance Index



RECOMMENDATIONS

NRGI recommends the following courses of action to improve oil and gas sector governance in Uganda:

1. **The government** should publish contracts signed with extractive companies, to allow the public to examine whether Uganda is getting a good deal for its oil and gas.
2. **The government** should make the identity of beneficial owners of extractive projects publicly available. While provisions exist mandating this information is provided during the licensing process, public disclosure is the necessary next step.
3. **The government and the National Environmental Management Authority** should ensure environmental and social impact assessments and environmental mitigation plans are freely and easily accessible through its online portal.
4. **The government** should adopt official laws setting a firm numerical fiscal rule governing public expenditure and establish an oversight authority to ensure compliance is regularly monitored.
5. **The Petroleum Fund** should set robust numerical rules governing deposits and withdrawals, as well as firm rules governing the investment of oil revenues.
6. **The government and all key ministries** should publish online key documents and information about the oil and gas sector, to ensure that they are easily and publicly accessible, reporting to the depth required by the Extractive Industries Transparency Initiative.

What is the Resource Governance Index?

The 2021 RGI assesses how 18 resource-rich countries govern their oil, gas and mineral wealth. The index composite score is made up of three components. Two measure key characteristics of the extractives sector – value realization and revenue management – and a third captures the broader context of governance — the enabling environment. These three overarching dimensions of governance consist of 14 subcomponents, which comprise 51 indicators, which are calculated by aggregating 136 questions.

Independent researchers, overseen by NRGI, in each of the 18 countries completed a questionnaire to gather primary data on value realization and revenue management. For the third component, the RGI draws on external data from over 20 international organizations. The assessment covers the period 2019-2020. For more information on the index and how it was constructed, review the RGI Method Paper.