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OIL DEVELOPMENT IN UGANDA

A Biodiversity and Extractives Political Economy Assessment Summary

OVERVIEW

Discovery of oil in the Albertine region of Uganda has created new economic opportunities as well as challenges for the governance of land and biodiversity resources. Based on commercial exploration of some 40 percent of the Albertine basin, Uganda's reserves are estimated at 6.5 billion barrels, approximately 1.4 billion of which is recoverable and could amount to US\$ 2 billion per year in revenue for 20 years.¹ This amount represents between three and nine percent of Uganda's GDP depending on oil prices and production costs.² Licensing has begun and decisions about the pipeline route were made, although production will likely begin no sooner than 2020.³

Recent country-level analyses of the oil sector indicate high levels of elite rent-capture at every point along the oil value chain despite the Government of Uganda's (GOU) relatively orderly licensing process.⁴ These elite and local-level rent captures involve land acquisition and the employment of available surplus labor to clear forest reserves and catch fish from Lake Albert. As a result, despite the

¹ Henstridge, M. and Page, J., "Managing a Modest Boom: Oil Revenues in Uganda, Oxcarre Research Paper No. 90, 2012.

² DFID,, Case Studies on Elite Capture in the Value Chain of the Extractive Sector – Uganda, August 2015, P. 16.

³ Mwesigwa, A., "Uganda will not meet its oil deadline – Bank of Uganda," *Uganda Observer*, 22 April 2015.

⁴ DFID, *ibid*.

promises of oil companies to protect the biodiversity around their installations, oil development is having an indirect and immediate impact on biodiversity in the Albertine.⁵

Prior to this research, USAID/Uganda identified population movements related to oil development as a major factor in the impacts on biodiversity and wanted to explore how these movements were specifically affecting resources. Accordingly, this political economy assessment (PEA) was conducted in the Albertine region to clarify how population movements shape different actors' incentives and interests in protecting biodiversity. A better understanding of these incentives can help identify openings for more effective biodiversity programming on behalf of USAID. This research was conducted as part of the broader Biodiversity and Extractives Political Economy Assessment project, implemented by Integra in collaboration with USAID.

DISCUSSION

Population movements have historically been a key feature in the region. The new prospect of employment in the oil industry in recent years has attracted huge numbers of people to the area. A key assumption of the PEA was that unrealized jobs left many people searching for livelihoods in forest areas. The mechanisms by which these people were finding places to go and the locations where people might be settling were unclear, however. The PEA identified some of these processes, mechanisms and locations through informant interviews with key stakeholders.

The research focused primarily on three key stakeholder groups: various levels of government, civil society, and private sector actors. Key characteristics for these groups are:

1. The Government of Uganda's strong central government is increasingly exerting its authority over local government;
2. Civil society actors in this arena are often seen by the government as "agitators;" and
3. Investors and speculators are seizing on emerging opportunities.

Uganda's strong patronage systems are embodied in the distribution of rents among political allies. Nevertheless, the central government appears to have approached the formal process of oil development with caution, looking to other countries' experiences and welcoming Norway-led Oil for Development Project to help weigh risks.

Uganda has also carefully negotiated favorable terms to maximize benefits from the oil development to the economy. Contracts published by Global Witness showed that the Government of Uganda had secured a take of around 80-90 percent of oil revenues.⁶ Additional measures such as the introduction of a new royalty, a windfall tax and a capital gains tax on profits from the sale of rights ensured significant deals in the national interest.⁷ Meanwhile, political elites have been able to reap short-term gains through lower level contracts and land acquisitions. Patronage networks have been further

⁵ Informants from the Uganda Wildlife Authority (UWA) and from the Wildlife Conservation Society (WCS) indicated that oil companies took extra precautions to comply with all requests to minimize disturbance to wildlife from oil exploration activities.

⁶ Compared to around 60 percent in Ghana. See DFID, August 2015, p. 20.

⁷ Global Witness, "A Good Deal Better," London: Global Witness, September 24, 2014.

strengthened throughout the oil exploration process.⁸ Simultaneously decentralization and elections processes have also strengthened these patronage networks by consolidating links between central and local levels and by limiting government accountability.

Our research found that oil-related land acquisitions and weak local government enforcement have driven degradation of forest and fishery resources in the region, particularly in Hoima and Buliisa districts. Oil exploration activities have increased the prospective value of land, which in turn has altered who has access to the land and also how it's used. We found that these changes are increasing threats to biodiversity in two main ways: first through the in-migration of people to the area in search of employment opportunities; and second through displacement of people, by resettlement or eviction. Both are associated with new patterns of land acquisition. Displacement of customary landholders has been associated with the restriction of access by others through enclosures, violence, and securitization of land or resources, affecting women disproportionately. Meanwhile the increased movement of individuals into fishing related livelihoods has caused an upwelling of fishing on Lake Albert.

Oil exploration activities produce a cascade of displacements of long-term residents, with some levels of compensation from oil companies, thus creating new markets for land. Government and oil companies also acquired land for some investments (notably, an access road, refinery, and waste management facility) through a formal resettlement process that primarily offered cash payments for crops and land. As land values increased, cash payments for oil-related land compensation attracted local elites to employ alternative modes of acquiring titles for land with prospective value. These acquisitions resulted in some forced evictions, as mentioned above. Some landowners seek to secure their control of the land by hiring laborers to clear the land, “sub leasing” to individuals to live on the land, or secure the parameters of their land through fences or hiring security. Some local elites take advantage of weak enforcement and the surplus of casual labor, to make claims on forest reserves, and hire laborers to cut them, so that they might be able to profit from the land either through oil or through farming. Likewise huge increases in casual laborers working in Lake Albert fisheries have been associated with the oil exploration activities. These changes destabilize traditional natural resource management regimes, while exposing weaknesses in the district government's ability to control the degradation and exploitation of these resources in the face of an unprecedented level of demand.

Through this PEA, the research team found that oil-related acquisitions of land and the influx of people from other parts of the country have changed social relations, consumption patterns and cultural norms in the region. Where local elites have sought opportunities to gain access to land at the sake of local communities, local residents can no longer access the farmland, water, and forest resources they need, disrupting customary land use and land management systems. Local government is either too weak to enforce land procedures, or debilitated through deference to courts upholding the irregularly acquired formal titles.⁹ The changing demographics in these areas have also affected norms around conservation practices. Particularly in the case of fisheries, customary cultural practices for fisheries management in Lake Albert have declined due to the influx of newcomers, fishing in boats owned by local elites. These include the traditional enforcement of bans on fishing during certain periods, the protection of fish nursery areas, and the sacred groves where cultural rites are performed; once considered important to ensuring steady fish stocks. Likewise, practices that once ensured the sustainable and equitable harvest

⁸ DFID, August 2015.

⁹ Titles can be acquired in Kampala for a price.

of non-timber forest products and wood for construction are no longer functioning, and conflicts of interest over land and resources distort incentives to protect these resources.

Since the Albertine region is one of the most biodiverse in the world, such stresses are a concern for USAID because they pose a threat to Uganda's natural heritage, globally unequalled biodiversity and important ecosystem services. This PEA research¹⁰ was conducted in April and May of 2016 to identify patterns of land use change related to oil development, and explain how those changes are shaping population movements and impacts on biodiversity .

KEY FINDINGS

The key findings coming out of this particular PEA include:

1. **New titling practices are empowering local elites and disrupting customary resource management regimes.** Specific cases of land dispossession and forest encroachment reveal local and regional elite rent-seeking behavior around oil development and inside and adjacent to forest reserves. This report identifies sensitive biodiversity areas in the Hoima and Buliisa districts being affected directly and indirectly by oil development;
2. **Local governments lack resources needed to be effective and accountable for conservation of biodiversity resources.** The report documents the emergence of parallel resource governance structures put in place to improve management, but which are effectively capturing rents. The research also defines how that underfunding of local government disables district level resource management.
3. **Land use planning and titling practices need support to avert further land displacements and to promote fairer procedures in the oil production phase.** The report's recommendations outline a programmatic response.

As Uganda moves forward with the licensing and commercial activity of oil extraction, there are a number of dynamics that will be encountered.

First, the oil pipeline route will likely encounter similar issues with respect to land acquisition and conflicts over customary and formal title to lands along the pipeline. The area of land defined to-date concerns civil society groups because of the width of the "right-of-way" to be acquired by the government, is seen as excessive, and they are concerned that its width only increases speculative land acquisitions and government payments to those who can acquire expedited "legal" title to those lands. That said, civil society actors could build on their existing work to transfer some of their lessons learned from Hoima and Buliisa to the pipeline development process. In particular, peer-to-peer learning could be very helpful in preparing communities for resettlement, compensation, and/or displacement.

Second, current low oil prices may offer an opportunity to reassess the costs and benefits of oil development, particularly compared to revenues in the tourism industry. Based on interviews, the

¹⁰ USAID, *Applied Political Economy Analysis (PEA) Field Guide*, February 4, 2016, available online at: (accessed on 15 September 2016). <https://www.usaidlearninglab.org/library/applied-political-economy-analysis-field-guide>

Uganda Tourism Board thinks it would be useful to commission a study to compare the economic benefits of oil development and tourism revenues.¹¹

Finally, international corporations have both influence and reputational concerns that might favor more investment in incentives to protect biodiversity in the area. Based on discussions with international conservation organizations, there is less concern about direct impacts of oil development from reputable companies than from the processes unfolding in the absence of an effective land use policy.

RECOMMENDATIONS

Recommendations resulting from this research include:

- 1. Improve the collection of data needed to inform programming.** Improving collection of analyses and baseline data at the local level can also be a process that supports local government technical capacity in ways that incentivize local government to improve delivery of services. This may include analysis of ecotourism revenues and benefits to encourage more imagination in how a biodiverse country may spur equitable, sustainable, profitable development over the long term.
- 2. Shift the power balance through indirect pathways.** In order to create incentives for conservation, the power balance must be shifted to favor local communities and local governments indirectly by empowering the National Environment and Management Authority and the National Forest Authority, working through them on technical issues, and employing Collaborative Forest Management with monitoring and evaluation roles for local government.
- 3. Support coalitions that can engage with government on land use planning.** Anticipating the new national land use planning policy now under development, the working group could position itself to bring together expertise on biodiversity and community livelihoods and security. USAID can use the forum to address some of the ways that resettlement in the Albertine Region is affecting biodiversity. This working group could explicitly address planning for land use around biodiversity and monitor the impacts of land use on biodiversity.
- 4. Engage civil society organizations (CSOs) and communities in strengthening livelihoods and scaling up opportunities.** Building local coalitions between CSOs and local government, supporting advocacy to support local government; and planning for the expansion of oil development activities, e.g. the pipeline are three examples. Engagement with conservation organizations and CSOs to maintain pressure to avoid drilling in the most sensitive areas should continue.
- 5. Improve tenure literacy and support CSOs and conservation organizations on land use planning to protect the land rights critical to sustainable resource management.** Work with other donors and through adaptation of existing programs, including efforts to increase participation, accountability and local governance for effective service delivery and to strengthen the Government of Uganda's peace building and conflict mitigation capacity, to develop additional approaches that can go beyond addressing land-based conflict toward achieving basic tenure literacy. Engaging more closely with international conservation organizations with expertise in land use planning and with the Government of Uganda on land policy development could increase safeguards for customary landholders and improve land use planning policy around ecologically sensitive areas.

¹¹ Wildlife Conservation Society Uganda has done some work on this topic as well.