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Anti-corruption measures in the context of oil

Evading the 'resource curse' in Uganda

Corruption erodes sustainable and inclusive development. It is both a political and technical challenge. The U4 Anti-Corruption Resource Centre (U4) works to understand and counter corruption worldwide.

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Uganda's emerging oil industry could paradoxically undermine its socioeconomic development. This is because of opportunities for corruption, including in project expenditure, procurement, land acquisition, and revenue collection. The government has introduced several anti-corruption measures and other initiatives are attempting to maximise the industry's benefits while limiting its socioeconomic costs. Further collective actions across government, civil society, and the international community are needed to limit corruption's impacts.

- The advent of new institutions may not help if existing agencies are already constrained by the same systems that create them.

Main points

- Corruption remains a real threat to the oil industry as it is deeply entrenched in the country's political economy, affecting every sector.
- Generally, corruption has become a lucrative venture in Uganda, operated by 'gainful concealment'.
- The oil industry offers rich ground for corruption, as evidenced to date by cases arising from project implementation by private firms.
- As part of institutional measures to guard the oil industry against corruption, the government created the Petroleum Fund within the Public Finance Management Act (2015) to prevent mismanagement of oil revenues.
- Existing institutions and structures are mainly constrained by bureaucracy, unresponsiveness, disjointed operations, and limits to legal mandates.

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Uganda's oil economy in the making

Uganda's oil industry is steadily shaping up into a fully established economic sector following commitments by the government to fast-track the development of pre-oil infrastructures.¹ Up to 21 oil discoveries have been made, yielding an inventory of up to 6.5 billion barrels of Stock Tank Oil Initially (STOIIIP)² of which 1.4 billion barrels is estimated to be recoverable.³ Although the government of Uganda is optimistic about ongoing exploration activities, it is not clear that there could be substantial addition to the current stock. Oil projects such as those under the Kabalega Industrial Park in Hoima, and the Tilenga and Kingfisher development areas in Buliisa and Kikuube, are critical for making oil production in Uganda possible. The progressive development of the US\$3.5 billion East African Crude Oil Pipeline (EACOP) illustrates the country's oil commercialisation plan.⁴ With these projects at different stages of completion, Uganda is on course to join Africa's oil-producing countries, including Angola, Nigeria, Equatorial Guinea, and Ghana.

A corpus of research demonstrates that oil production has the potential to bring about a negative political-economic phenomenon commonly known as the 'resource curse' or the 'oil curse'.⁵ These terms describe a paradoxical situation that has featured differently across oil-rich countries in and beyond the African continent.⁶ A typical feature of the resource curse is that a country, for unique reasons, does not realise positive socioeconomic transformations through the extraction of valuable resources. The leading sources of fear and anxiety among Ugandans in this regard include: the possible decimation of other sectors such as agriculture; rising social inequality; and irreparable damage to the environment. Corruption is a key feature of this paradox.⁷ It is imperative that Uganda lays strong domestic foundations for resource governance, to navigate the known and predictable challenges that come with oil extraction.

1. Petroleum Authority of Uganda 2022a.

2. Petroleum Authority of Uganda 2024.

3. STOIIIP refers to an estimate of the volume of economically recoverable oil in a reservoir. The actual recoverable volume is normally determined by the technologies deployed in extraction.

4. Petroleum Authority of Uganda 2022b.

5. Watts 2012.

6. Ross 2011; Basedau and Lacher 2006; Watts 2012.

7. Yates 2012; Gelb and Majerowicz 2011.

Uganda must lay strong domestic foundations for resource governance, to navigate the known and predictable challenges that come with oil extraction.

Earlier studies on Uganda's oil situation raise concerns about the country's structural and institutional preparedness to abate the volatilities of the oil industry, and about transparency shortfalls and the potential for damaging corruption in the oil sector.⁸ These concerns originate in a political-economic atmosphere characterised by hesitancy of the country's leadership to account to the population. It is in this atmosphere that the country is implementing different projects across and beyond the Lake Albert Basin in preparation for 'first oil'. With a consistently low score and ranking in the Corruption Perceptions Index (CPI) over the past years, the debate about the potential for a corruption-led oil-curse in Uganda seems inescapable.

Corruption in the oil industry, as is the case with other sectors, is largely a governance problem. Over the last decade, efforts to strengthen the domestic foundations for governance⁹ have led to a series of multi-stakeholder engagements in Uganda. Such engagements promote a contextually specific narrative of change about the oil industry in Uganda. They also develop a framework for the country to maximise and retain benefits from oil extraction. These engagements address how Uganda can get its development right with oil.¹⁰ With the establishment of institutional and legal infrastructures to govern different stages of the sector's value chain, (albeit in a broader atmosphere of political corruption), there is a perception that Uganda is committed to a properly governed corruption-free oil sector. This was reinforced by the country's admission to the multi-stakeholder transparency initiative – the Extractive Industries Transparency Initiative – in August 2020.¹¹

Multi-stakeholder engagement gives the perception that Uganda is committed to a properly governed corruption-free oil sector.

This U4 Issue is based on fieldwork conducted in October and November 2023. It explores the effectiveness of existing institutional strategies for mitigating corruption in Uganda, and the implications for the oil industry. The conclusion and

8. Gelb and Majerowicz 2011; Hickey and Izama 2017.

9. Hickey and Izama 2017; Hickey et al. 2015.

10. Witte 2018.

11. UGAEITI 2022.

recommendations draw on interviews conducted at the subnational level, notably among project-affected persons (PAPs), local business owners, and leading opinion formers in Hoima and Buliisa. Further informative formal meetings were held with authorities from national anti-corruption agencies in Kampala, notably the Office of the Auditor General (OAG) and State House Anti-Corruption Unit (SH-ACU),¹² as well as civil society actors involved in anti-corruption and oil sector productivity campaigns. Preliminary findings were presented and enriched at a two-day workshop in Kampala in February 2024, which brought together state anti-corruption and transparency agencies, development partners, and civil society groups.

The study was guided by four themes:

1. The types of corruption Uganda is likely to experience in the progressive stages of oil industry development
2. The existing institutional structures aimed at mitigating sector-related corruption
3. The challenges these institutions could be facing (or are likely to face)
4. How strategies can be improved in view of the challenges

12. Efforts to secure interviews with other public agencies were made but did not bear fruit.

Corruption risks in Uganda's oil sector

'The same problem facing the other sectors could crop up in the oil industry. This is the same government, and as long as institutions such as parliament do not respond to reports from technical institutions like the Office of the Auditor General, there is nothing much that can be done about corruption.'¹³

Corruption risks in the oil industry manifest themselves in different ways along the value chain. Uganda is at the stage of developing different sector-specific projects, leading towards oil production. This implies that corruption risks are currently limited to the implementation of pre-oil projects. Massive investment commitments have been made for projects such as EACOP, the Kingfisher Development Project in Kikuube, the Kabalega Industrial Park (KIP) in Hoima district, and the Kabalega International Airport and Tilenga Project Area in Buliisa. These projects add to a network of hundreds of kilometres of 'critical oil roads' developed within and beyond the Albertine region.

Infrastructure projects of such magnitude are hotspots for corruption, especially where government institutions insufficiently coordinate project activities. This U4 Issue highlights four areas of corruption risk at the current stage of Uganda's oil sector development: project expenditures and recoverable costs; project-related procurement and recruitment of labour; land acquisition and resettlement; and revenue collection management.

Project expenditure and recoverable costs

Petroleum operations in Uganda are mainly being implemented through a cost management framework in the form of production sharing agreements (PSAs) between the government and multinational companies. This is the most common type of agreement due to developing countries' limited supply of adequate risk capital to invest in pre-oil production operations. Uganda's framework has been described as a 'hybrid model', where licensed companies pay royalties even when they recoup operational costs through cost oil and profit oil provisions.¹⁴

13. Interview: government official, Kampala, December 2023.

14. For detailed distinction between cost oil and profit oil, see [PAU 2021](#).

Cost recovery for capital investments during exploration, development and production, as approved by the Petroleum Authority of Uganda (PAU), begins when oil production starts.¹⁵ The level of confidentiality characterising the implementation of different projects, and the lack of oversight of recoverable expenditures, increases the risk that such costs are overstated. In a 2021 Oxfam blog, Magara Siragi Luyima, recommending adequate oversight and cost control, (among other measures), argues that ...

‘The fact that PAU approves oil companies’ development plans without any form of oversight and a thorough audit of the planned recoverable expenses is a recipe for loss of revenue to Uganda...’

For instance, in 2017, the OAG rejected a claim by oil companies of 290 billion Ugandan shillings (approximately 71 million euros) that had been recorded as recoverable costs for expenses between 2004 and 2011. According to the OAG, these costs did not qualify as recoverable because they ‘did not comply with the provisions of the Production Sharing Agreements.’¹⁶ The revelation by the OAG highlights the risk of potential revenue loss, as well as the need for close monitoring of expenditures in the oil industry, as provided for in the PSAs.

The institutional mandate for approving annual project expenditures for oil companies lies with the PAU, which is the first point of scrutiny. Although PAU takes commendably rigorous steps in reviewing and approving companies’ annual recoverable expenditures, the fact that some expenditure claims had to be rejected upon audit by the OAG shows that the risks are not completely resolved at the approval level. This calls for inter-institutional coordination in undertaking the checks, and for swifter response to the findings and recommendations of the government’s key accountability agencies such as the OAG.

15. Ministry of Energy and Mineral Development 2019, pp17–18.

16. Luyima 2021.

Project-related procurement and recruitment of labour

‘We have a PPDA [Public Procurement and Disposal of Public Assets] Act, which should guide all procurement processes following certain rules and principles. But you will notice that, in the oil industry, these rules and principles are often bypassed. This puts the industry at risk for lack of background checks for all those involved.’¹⁷

Procurement is a critical area of corruption risk. The oil industry is an integral part of the country’s economy, and its procurement activities are subject to relevant laws and procedures. Parts IV, V and VI of the Public Procurement and Disposal of Public Assets (PPDA) Act (2003) outline the principles and procurement methods that ministries, departments, and agencies must adhere to in all procurement activities. However, as the study participant cited above points out, there have been cases where the PPDA Act and its associated rules have been sidestepped.

Past procurement processes have involved ‘influence peddling’ by individuals in positions of authority. For example, the onset of initial oil-related activities about two decades ago saw high-ranking officials implicated in a corruption scandal linked to the award of oil contracts. This was brought before the Ninth Parliament and caused tensions between legislators and the executive.¹⁸ The alleged continued practice of influence peddling by high-ranking officials can be attributed to weaknesses in institutional safeguards to prevent those close to the political establishment from sidestepping PPDA Act provisions and awarding themselves contracts as beneficial owners of oil sector service companies. This was pointed out by an interviewee in Kampala:

‘Some of the big shots in government are the owners of these companies that are offering services in the oil industry. I know of an actor in the industry whose children are directly involved in the industry. They are either working in or [are] suppliers to the industry. Such people make due diligence procedures difficult to undertake.’¹⁹

17. Interview: Kampala, November 2023.

18. Parliament of the Republic of Uganda. November 2013; BBC News. 12 October 2011.

19. Interview: Kampala, November 2023.

Before the enactment of the beneficial ownership regulations, there were concerns about the names behind the companies that were providing services in the Albertine Basin. The beneficial ownership regulations make it possible to track financial flows in the development of the Basin. To further streamline the oil and gas sector's service provision portfolio, the PAU established a National Supplier Database (NSD) supplier registry, which is used to select suppliers for the oil industry. Local business owners have claimed that the vetting process to be approved as a supplier often involves costly solicitation.

Limited transparency in the management of the NSD means that there are significant corruption risks, ranging from being accepted onto the database, to being awarded contracts. While beneficial ownership regulations are in place, it is not entirely clear how top-level practices of kickbacks and influence peddling can be controlled by mere knowledge of who owns what company. Kickbacks are allegedly a key form of corruption, as explained by a local business owner in Hoima:

'When you bid for a contract, even with your company listed on the [national] supplier database, you have to give kickbacks. Even during compensation, many PAPs gave kickbacks to the project implementers to get more money for their land... and many actually benefited.'²⁰

This is also the case with recruitment processes. There are widespread allegations from job applicants in the industry that recruitment processes have often involved background lobbying and transactions, as an interviewee in Hoima states:

'I know somebody who paid money throughout the process of recruitment until she was given the job. She told me how she paid to be shortlisted, and then she paid to get the interview questions beforehand... and now she is at the camp. She is working...'²¹

The practice of paying throughout recruitment processes is not unique to the oil industry. Rather, it is a general and widely known problem in Uganda's job market. Qualifications alone do not necessarily lead to becoming hired or winning a contract. Influential connections and resources are typically also required. This implies that a narrow group of well-resourced and advantaged individuals become the dominant

20. Interview: Buliisa, November 2023.

21. Interview: Hoima, November 2023.

force in industries, sidelining other talented, but less resourced and/or less 'connected' individuals.

Land acquisition and resettlement

Land acquisition has been the most contentious part of the implementation of different oil projects to date. This has been related to breaches of rights of PAPs, and in connection with illicit transactions, collusion, evictions, and stalled court cases. Through interactions with individuals from project-affected communities, fieldwork revealed examples of alleged land-related corruption:

- Some individuals are shielded by government institutions, paying their way through courts, and grabbing land in and around oil projects. The compensation rates for these individuals tended to be higher than the rates for other PAPs.
- Where compensation is due to landowners, officials have reportedly colluded with landowners to escalate compensation figures. The markup is typically shared by the officials and landowners.
- Officials have been paid by speculators to give out confidential project information, which is then used to enter land transactions with often uninformed and illiterate landowners.

Although project-related land acquisition will phase out at some point, the dubiousness of these processes could continue to haunt victims and could cause the government significant financial losses. Where land-related grievances in the context of oil projects – such as statutory acquisitions, speculative transactions, and evictions – have been taken up via the courts, corruption has allegedly also played a role in court decisions. As a local leader in Buliisa suggests:

'The courts today only listen to those who have the money. Me a poor farmer here in [Buliisa], I cannot fight with a rich businessman from Kampala... with all his money and his connections. We did not hope the oil would be a problem... the NGOs told us at the beginning that there could be a problem, but we tried to take the positive side. Now we are seeing it turning against us.'²²

22. Interview: local government official, Buliisa, November 2023.

Revenue collection management

The Public Finance Management (PFM) Act (2015) makes provisions for the management of revenues from oil activities. Part VIII (Sections 55–75) of the PFM Act relates to different legal strategies for governing oil revenues. The most important of these is the establishment of the Petroleum Fund, and associated practices such as the collection of petroleum revenues, deposit of revenues into the fund, withdrawals from the fund, and reporting to parliament.

Although commercial production of oil in Uganda lies in the future, the country has already earned significant revenues mainly through ‘signature bonuses’²³ and operational taxes from oil firms. Revenue collection and management (as well as potential mismanagement) are key features of the ‘resource curse’ debate, a phenomenon that Uganda has undertaken institutional measures to avoid, not least via the PFM Act. However, the quality of revenue management is not merely about the presence of institutions. Their functionality, the enforcement of measures enabling revenue collection, and the prevention of unlawful acts at national and subnational levels, also matter.

At subnational level, there are concerns that some actors operating in the oil-bearing districts do not fully comply with their tax obligations. In Buliisa district, for example, there is a claim that a leading service provider under the Tilenga Project has, since 2009, defaulted on its local service and hotel taxes as provided for in Chapter 243 of the Local Government Act. The district authorities argue that, since the firm is offering services like those offered by local hotels, the company is obliged to pay the 2,000 Ugandan shillings daily levy on everyone they accommodate in their facilities. However, these services are offered in what are widely known as ‘site camps’, not hotels.

The collection of revenue is one matter; its effective management is another. In 2015, just a few months after the PFM Act was approved by the president, a group of 42 civil servants were treated to a cash bonanza from revenues resulting from successful arbitration for capital gains worth US\$434 million.²⁴ In a letter to the president, the Uganda Revenue Authority’s then Commissioner General recommended paying the 42 individuals 6 billion Ugandan shillings (approximately 1.5 million euros) in bonuses.

This sidestepped existing public service guidelines on rewards and sanctions for civil servants, and violated the PFM Act, which was specifically amended to incorporate the management of oil revenues. The ‘oil-cash bonanza’ remains an important

23. Signature bonuses are funds paid by project operators to acquire the right to sign oil exploration and production agreements.

24. Kinyera 2020.

example of potential lapses in institutional revenue management for two reasons. First, it exposed the dysfunctionality of guidelines that render anti-corruption strategies ineffective; second, it highlighted the elite nature of decisions on matters of oil and gas, as the power to determine how revenue is spent lies with the executive. The 'bonanza' demonstrated the potential for institutional tensions when dealing with accountability issues. Even when members of parliament (MPs) pushed for an investigation, an interim order was issued by the then Deputy Chief Justice, blocking discussions of the case in parliament.

Such structural tensions and interference highlight the fragility of institutional strategies to mitigate corruption risks in the oil industry. Parliament should be at the heart of oversight of different development activities through its Public Accounts Committee. But with the committee rendered peripheral, or compromised in its oversight role regarding government ministries, departments and agencies, the mitigation of corruption at the institutional level remains challenging. The Parliamentary Forum on Oil and Gas, which was active in monitoring the progress of the sector, has been heavily reliant on donor funding, making the group resource constrained. The technical capacity of MPs to engage in informed debate about the sector is also a matter of concern. As a result, the power to determine what happens with the oil revenues rests in the executive, rendering all other domains of institutional accountability largely ineffective.

Anti-corruption structures and their efficacy

Uganda is not short of anti-corruption structures and laws, but corruption and abuse of office continue to plague the country. In relation to the oil industry, anti-corruption debates should pay attention to whether existing mitigation measures can address the challenges at high levels of government.

Alongside the mainstream institutional anti-corruption structures – the Inspectorate of Government (IG), the OAG, and parliament – several other anti-corruption measures have been undertaken. These include the establishment, in July 2008, of a specialised division in the High Court – the Anti-Corruption Court Division (ACD) within the judicial system, ‘to take drastic action against the corrupt by strengthening the adjudicatory mechanism for fighting corruption’.²⁵ Throughout the years, these mainstream measures have proved to be challenged by numerous factors, including gainful concealment, and the politicisation of corruption and anti-corruption. Subsequently, a new anti-corruption outfit was established in the Office of the President – the State House Anti-Corruption Unit (SH-ACU); and more recently, the State House Investors Protection Unit (SHIPU). Even with these measures in place, various actors have found ways to evade them. Therefore, while it is essential to have institutional structures and legal frameworks in place, they must also be effective.

The OAG is one of the main institutional structures for identifying corruption. Established under Article 163 of the Constitution, the OAG is headed by the Auditor General (AG), who is appointed by the president. The AG’s key task is to audit the accounts of all government ministries, departments, and agencies, and deliver an annual report to parliament. Unlike other entities, such as the IG, the AG only points out anomalies that parliament must react to and take appropriate action.

‘The Office of the Auditor General only presents an annual report to parliament. Thereafter, it is the work of parliament (particularly the speaker) to cause a reaction to the report of the AG. The challenge we have is that parliament is not responsive to AG’s reports... the records show that only 20% of the reports are discussed. So even where the AG identifies a problem, it is left to escalate because parliament is not doing our reports justice.’²⁶

25. Republic of Uganda Judiciary, Anti-corruption Division 2024.

Without a properly functioning and agenda-driven legislative assembly (that is, parliament), the AG remains a dormant actor whose findings tend to remain shelved, as stated by the officer cited above.

Recent public pressure to act against corruption has revealed that parliament is itself a hub of corruption. The public scrutiny and subsequent revelations resulted in the sanctioning of the Speaker by the USA and UK,²⁷ as well as the arrest and arraignment in court of some MPs.²⁸ These sanctions were amplified by a civil action by young people, to march to parliament on 23 July 2024, asking for the resignation of the Speaker of Parliament, Anita Annet Among. Dozens of demonstrators were arrested by the police and quickly sent to prison; an act that has been interpreted as a demonstration of institutional endorsement of unaccountable leadership in the legislature. Public opinion and trust in the credibility of parliament has been heavily dented, creating a new wave of public uncertainty about how oil revenues will be managed.

Another important anti-corruption agency is the Inspectorate of Government (IG): the structural heartbeat of institutional anti-corruption efforts in Uganda. Established under Article 13 of the Constitution, the IG is mandated to ‘promote and foster strict adherence to the rule of law, investigate and prosecute cases of corruption...’²⁹ Yet, the IG’s existence as a force against corruption has not prevented the spread and deepening of corrupt practices. For instance, by the second phase of the reporting period FY 2022/2023 (January–June 2023), the IG registered an increase in the number of complaints by 241 from the previous reporting period (July–December 2022) to 1,309, out of which 1,172 were sanctioned for investigation. Eleven of these cases have been described as ‘high-profile’ in government ministries, departments and agencies. These relate to the National Social Security Fund, the judiciary, the Uganda National Roads Authority, the Ministry of Agriculture, Animal Industry and Fisheries, and Makerere University, among others.

The monetary value of the investigated cases amounted to 507 billion Ugandan shillings (approximately 123 million euros). The cases include abuse of office and embezzlement and/or misappropriation of funds at national and local government levels. As a result of investigations, 3.6 billion Ugandan shillings were recovered, 25 cases were prosecuted and concluded, but only ten cases led to convictions. The IG suggests that resources (finances, logistics, staff) allocated to the institution are inadequate to enable it to effectively deliver on its mandate. Through strategies such

26. Interview: key informant, Office of the Auditor General, Kampala, 20 December 2023.

27. The Independent, 30 May 2024.

28. The Independent, 21 June 2024.

29. Inspectorate of Government 2023.

as public ‘*barazas*’, the IG has continued to encourage the population to take an interest in the conduct of public officers – for example, by undertaking lifestyle audits. However, the extent to which the Inspectorate is technically and logistically prepared for the oil industry remains a concern.

The ACD at the High Court was created in 2008 to complement the IG’s work by providing an ‘... orderly mechanism for the adjudication of corruption cases based on merit, speed, efficiency and fairness...’³⁰ Being a typical court system, the ACD only operates at the tail end of the judicial chain and can only hear cases that are brought before it.³¹ The ACD has often been faulted for trying only ‘small cases’ and letting the ‘big-fish swim’.³²

Corruption operates through an ‘economy of concealment’: an act of gainfully disallowing evidence of corrupt practices. Through this economy of concealment, genuine cases allegedly do not make it to the courts. This practice has frustrated many institutional anti-corruption efforts, including those of the IG. As noted by one official:

‘The amount of resources available to conceal corruption are at most times greater than the resources available to pursue and investigate the corrupt. Concealment is at every level, stretching as far as the very offices that are tasked with identifying and investigating corrupt practices.’³³

The rise in corruption cases in the decade leading up to the 2020s, particularly among high-ranking officials, has kept Uganda’s CPI score vacillating between 20 and 29.³⁴ In 2018, as a result of persistent cases of corruption and general public discontent, acting under Article 99 (4) of the Constitution of Uganda, President Yoweri Museveni established a special anti-corruption taskforce in the Office of the President – the ³⁵SH-ACU’s mandate is to: (i) coordinate citizens’ complaints to the presidency; (ii) inject new energy into anti-corruption measures; and (iii) process corruption complaints rapidly in coordination with other agencies.³⁶ With a relatively small team of 15 detectives, seven lawyers and two auditors, SH-ACU is an

30. Republic of Uganda Judiciary, Anti-corruption Division 2024.

31. Schütte 2016.

32. Human Rights Watch 2013.

33. Interview: key informant, Kampala, 7 November 2023.

34. Transparency International 2022.

35. State House Anti-Corruption Unit 2024.

36. State House Anti-Corruption Unit 2022.

executive creation, responding to the fact that the other anti-corruption institutions have been slow in dealing with cases of corruption.

‘There is a great frustration from the public regarding corruption, and the president is aware of that. But due to the concept of separation of power, the other entities are independent... that is, the president could not directly interfere with their operations. So, this unit is meant to ease access to the citizens and to help [the President] to ensure that complaints are addressed speedily.’³⁷

In its first three-year period (2018–2021), SH-ACU recorded up to 320,000 corruption-related complaints, of which more than 30,000 were considered actionable. The daily ratio of cases reported to the IG and to SH-ACU is approximately 1:40. This implies that SH-ACU has gained favour in efforts against corruption, compared with the IG. In relation to SH-ACU’s actionable cases, 329 accused persons were arraigned in court, resulting in 40 convictions. A cumulative total of 30 billion Ugandan shillings (approximately 7 million euros) were recovered or saved from different sectors over three years. Whereas these figures imply that this executive entity is performing exceptionally well, its operations, like all the other entities, are largely retrospective – that is, dealing with the aftermath of corruption. For all the mentioned state anti-corruption structures, there are no known and practicable strategies for early corruption risk-identification and prevention, a factor that poses challenges for oil-based development.

37. Interview: Head of Legal Section at SH-ACU, Kampala, 13 November 2023.

Implications for the oil industry

As stated in an overview of corruption risks in Uganda: ‘corruption permeates all parts of Ugandan society and acts as a major constraint on economic development and poverty reduction’.³⁸ The oil industry is emerging at a time when the country’s corruption record is alarming. Corruption risks expand with new opportunities for revenues, which is what Uganda’s oil industry promises. In 2021, the IG published *Cost of Corruption in Uganda*, in which it estimated that the country’s annual corruption-related losses in natural resource sectors stood at 868 billion Ugandan shillings (approximately 211 million euros). Put into perspective, if SH-ACU can recover 30 billion Ugandan shillings (approximately 7.1 million euros) in three years, with an average annual recovery of about 10 billion Ugandan shillings (approximately 2.3 million euros), this is just 1% of the estimated annual losses to corruption in natural resource sectors. This figure could be even smaller once the cost of recovering lost funds is factored in.

The oil industry in Uganda is built on a foundation of secrecy, with confidentiality maintained about PSAs between the government and joint venture partners. When viewed through a political settlement lens – that is, how institutional powers and agreements between powerholders, enable societies to maintain relative stability³⁹ – Uganda’s corruption situation can be considered to take the form of a syndicate orchestrated by political networks built on gainful concealment.

Gainful concealment involves discreetly shelving information about corrupt practices so that they are shielded from public view. Recent events in Uganda surrounding the parliament show that information about corruption cannot be entirely repressed. But with little official information in the public domain, existing anti-corruption strategies and structures appear inconsequential and a form of ‘firefighting’. Sector-level confidentiality in the oil industry implies that existing institutional structures and their strategies, for lack of information, cannot trigger meaningful preventive interventions. This could explain the apparent inattention to the sector by emergent watchdogs such as SH-ACU, whose mode of operations makes it largely dependent on information it receives from others:

38. Sharpe 2018.

39. Kinyera 2020; Hickey et al. 2015. (The authors made the first attempt to view the evolution and development of the oil industry through the lens of political settlement, focused on contractual negotiations between the government of Uganda and multinational oil corporations, with heavy influence from the presidency).

‘We have not had much engagement with the oil sector... The only area where we had interventions was land-related matters – mass evictions and land grabbing. At least, we haven’t gotten any information that could lead us to engage with the sector in a more comprehensive way... but we can get involved once there are issues.’⁴⁰

A major challenge is corruption risk identification and preventive interventions. One area requiring attention is the implementation of projects through land acquisition, property valuation, and cash compensation. Project-affected communities could report instances of unlawful conduct by officials acting on behalf of the government. However, some community members have themselves allegedly benefited from illicit transactions whose costs will be borne by the government at a later stage when oil production begins.

In addition, there are institutional power dynamics to consider in the governance of Ugandan oil. The assumption is that the responsibility of governing oil solely lies with the Ministry of Energy and Mineral Development and its technical departments, through the PAU. However, real authority over the oil industry is reported to lie with an elite group with direct executive influence.⁴¹ With this set-up, one interviewee argues...

‘...questioning oil activities is equivalent to questioning the executive. That is why you will not hear many stories about oil, even among members of parliament. They will talk about compensation, land grabbing and others, but you will not hear them discuss the Petroleum Fund, for example.’⁴²

These power dynamics are embedded in the laws enacted by parliament to govern oil. The oversight role of parliament in the context of the oil industry is therefore limited by the power configuration governing the sector. At the same time, the transparency landscape continues to evolve, with Uganda having been admitted to the Extractive Industries Transparency Initiative in 2020. The recent (2024) validation awarded the country a ‘moderate’ (70–84%) score in its adherence to the Initiative’s standards.

40. Interview: Head of Legal Section at SH-ACU, Kampala, 13 November 2023.

41. For further discussion, see Kinyera 2020pp. 125–29.

42. Interview: key informant, Kampala, 18 December 2023.

How anti-corruption efforts can be strengthened in Uganda in relation to oil

Continued development of Uganda's oil industry may draw the country closer to its promised national transformation. The government has undertaken steps to institutionalise the sector's development, laying domestic foundations for de-risking the sector, including by attempting to avoid the so-called 'resource curse' often associated with oil production in developing countries. While these institutional foundations are yet to be tested by the actual flow of oil, a broader lack of transparency could be a determinant of the level and nature of transformation that oil could bring to Ugandans.

Corruption remains an important part of the transparency debate and is viewed as affecting all sectors of the country's political economy. Although the government has designed several anti-corruption measures, the high-level nature and manifestation of corruption mean these measures face real tests. The recommendations in this section draw on the findings discussed above and reflect on the possible roles of three categories of actors in anti-corruption efforts: (i) government institutions; (ii) civil society; and (iii) the international community of development partners and lenders.

Government institutions: ensuring transparency

In anti-corruption efforts, it is appropriate that all government agencies work in unity. This should extend from the lowest office of the local council to the highest office of the presidency. Nevertheless, some institutions can be regarded as particularly relevant for ensuring transparency across the economy, including in the oil sector, as noted in the following suggested recommendations:

- **Transparency through project information sharing:** Information is an important element in the identification, mitigation, and prevention of corruption. Financial information on oil projects such as resettlement planning, critical oil roads, and other associated projects, could be made known to the public for scrutiny. As the statutory regulator of oil activities, the Petroleum Authority of Uganda (PAU) should design modalities for periodic information-sharing with the public, and with other government agencies. This would create a multi-stakeholder platform for debate on ongoing oil activities.
- **Strengthening beneficial ownership regulations:** There are several locally

owned companies that operate as service providers in the oil and gas sector. As part of transparency measures, the beneficial ownership regulations require that companies declare their ownership through a registration process with the Uganda Registrations Services Bureau. Commendably, the registration of beneficial ownership and the associated regulations aid the tracking of financial flows. As an anti-corruption measure, this may be strengthened by aligning the regulations with existing procurement guidelines to guard against conflict of interest, influence peddling, and gainful concealment in contract bidding processes.

- **Collaborative approach through inter-institutional synergy:** The Inspectorate of Government has continuously expressed concerns about inadequate resources to deliver on its mandate.⁴³ A more concerted effort built on a foundation of constructive institutional collaboration should be developed among existing anti-corruption structures and the PAU to monitor the performance of the oil industry. This could be one way of concentrating resources towards more effective anti-corruption efforts.
- **Swifter reviews of audit reports, and a more proactive role of parliament:** Parliament is at the heart of oversight in all government operations. Parliament's Committee on Environment and Natural Resources should be at the forefront of monitoring oil project activities. However, reports from statutory institutions, such as the Office of the Auditor General, tend to take a long time to be reviewed and responded to. In collaboration with the PAU, key government agencies such as parliament, the Ministry of Finance, Planning and Economic Development (MoFPED) and the Uganda Revenue Authority should develop a workable framework for periodic review of oil sector performance, without having to wait for annual and bi-annual reports from the Auditor General or Inspector General of Government, respectively. Such reviews and technical financial advisory from MoFPED officials would enhance early identification of resource misappropriation, corruption and potential loss of revenue to government. Such reviews should be made inclusive of non-governmental actors in Uganda, such as the Extractive Industries Transparency Initiative, and Transparency International.
- **Corruption risk identification through civic spaces:** Functional depoliticised civic spaces are necessary across the oil-bearing regions. They are platforms for the public to join anti-corruption debates, and to share information to support strategic preventive interventions. For example, the Inspectorate of Government's subnational '*barazas*' could be extended to the oil industry to allow

43. Inspectorate of Government 2023.

for tailored discussions about the implementation of different oil projects.

Civil society and development partners: working in partnership

Civil society organisations (CSOs) and different development partners have been active in relation to the oil industry since commercially viable oil was confirmed in 2006. However, many CSOs and basket funds such as the Democratic Governance Facility have had challenging relations with the government, lessening the impact of their efforts to bring about transparency in the sector. Nonetheless, many CSOs and development partners remain active in this space and have continued to collaborate with relevant state institutions. To consolidate the existing framework for collaboration, CSOs and development partners could consider the following:

- **Promote issue-based partnerships** to undertake constructive evaluation of the performance of the oil and gas sector. This could be a platform for the generation of new anti-corruption ideas and strategies to help Uganda evade or mitigate the so-called ‘oil curse’.
- **Join efforts with the Inspectorate of Government** using initiatives such as *barazas* to sensitise communities in and around the oil-bearing regions on the widespread nature and dangers of corruption in the oil industry. This could possibly limit the potential for officials to collude with communities to engage in corruption.
- **Render technical support to relevant local government units** in the oil-bearing districts on matters of accountability and transparency during the implementation of oil projects. Such support would enhance the capacity of subnational authorities in identifying corruption across oil projects, and work towards limiting such risks. Local governments are limited in terms of capacity and resources, a void that CSOs can help fill.
- **Collaborate with the Extractive Industries Transparency Initiative Uganda to develop a functional multi-stakeholder framework** for periodically communicating corruption risks with relevant government authorities and promoting strategic actions to demonstrably limit such risks. The Initiative in Uganda could advocate for periodic reviews of accountability reports by different government agencies to ensure early identification of corruptions risks, and to limit the costs to the public.

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