

# IM4DC

# Action Research Report

## SUMMARY

**Researcher:**

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**School/Centre:**

Curtin Graduate School of Business

**University/ Institutions:**

Curtin University

**Key themes:**

Governance and Regulation

**Key countries:**

Tanzania, Uganda, Kenya and South Sudan

**Completion:**

December 2013

**Research aims:**

This project examined to what extent policy, regulation and institutional autonomy can improve revenue transparency and deliver better governance of the Oil and Gas industry in new production frontiers like the East African region.

The project comprised five areas of research:

- Fiscal regime
- Policy framework
- Regulatory framework
- Institutional arrangements
- Extractive Industries Transparency Initiative Compliance

**For further information on this action research:**

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## Oil and Gas Revenue Management Fiscal Regimes: An Opportunity for East Africa Regional Development

The Oil and Gas Industry is a 'billion dollar' industry, not only in absolute terms but also more importantly, relative to the overall size of many resource-rich countries. The industry incurs huge costs in upfront investment, most of it sunk-in capital commensurate with the potential rewards and risks involved. Costs and benefits are shared between governments that control and retain the property rights thereto and contracting entities in the form of public and private international oil and gas companies.

Large-scale oil and gas production in any country should be a blessing; it generates revenues that can reduce poverty and accelerate economic growth. However, once mismanaged, it can also result in major macroeconomic and structural consequences. These include: wasteful spending and revenue mismanagement; real exchange rate appreciation (Dutch-disease) leading to resource dependence; government budget volatility; inflation and exchange rate volatility; an increase in foreign debt fueled by resource revenues; and resource control fueled conflict.

This research project, part of an MSc, looked into the economies of Tanzania, Uganda, Kenya and South Sudan and the implication of the emerging Oil and Gas resource industry for the development of the East African Community.

The project evaluated the fiscal, policy, regulatory and institutional framework, existing and proposed by the four countries to manage the industry. Of special interest were the fiscal arms of government charged with contracting, sale, receipt, storage, access, planning, monitoring, budgeting and expending of oil and gas revenues. These institutions include the responsible line ministries of finance and energy, central banks, revenue collection bodies of governments, and the oversight role of parliament to ensure fiscal discipline by the executive arms of government, accountability and transparency in revenue management and prevention of endemic corruption within the sector.

The research found that whilst the formulation of new policies and laws was a promising step, there were a number of key challenges in the region including:

- lack of definitive policy and regulatory frameworks, particularly Kenya and Tanzania
- weak revenue collection and monitoring institutions
- lack of institutional autonomy and independence from political pressures, especially in Uganda and South Sudan
- corruption
- limited skilled human resources
- lack of access to information
- lack of accountability and transparency
- lack of unequivocal states commitment to embracing the EITI global framework
- limited role of parliament in checking executive powers and influence over the industry by the executive arms of government
- a failure to accommodate public participation in the revenue monitoring framework through civil society representation in the policy and regulatory framework