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Abstract:
African countries have valuable natural resource endowments and very few are yet to benefit. The benefit to the rentier state depends on the willingness and ability to tax and also claims participation in the staple's performance. The ability to tax the enclave is also not a sufficient condition to vigorous economic growth unless it is accompanied by the ability to invest productively and the possibility of any fault investment becomes a leakage to the system. State that only concentrates on how to tax the staple may be very far from making effective contribution to development outcomes. A country may diversity its staples towards agriculture and manufacturing to avoid the "paradox of plenty." It is also argued that the extent to which a country suffers from the "resource curse" depends on its policy choices. The common narratives are that institutional and governance qualities, as well as building political coalitions are necessary to promote productive public investments and entrepreneurial abilities of the government. With the new oil discoveries, Uganda now faces a litmus test in avoiding the "paradox of plenty" as it advances its development agenda. While the government favors using the oil revenues to improve on its infrastructure and spur industrial development, observers believe that country has high degree of vulnerability to the "resource curse," given the institutional and governance inability, social fragmentation and the lack of political inclusiveness. The country experiences deteriorating governance conditions and corruption, signaling inadequate capacity to tax and invest from the oil revenues in a productive manner. The Production Sharing Agreements between the government and the oil companies were kept confidential and not opened for public scrutiny. Using the staple thesis analysis, this article examines the development outcomes in a comparative perspective of Botswana's relative success and Uganda's new oil finds.

Keywords*: oil, institutions, corruption and development outcomes, transparency and accountability*

I. INTRODUCTION:

The competing narratives in Sub Saharan Africa are that the existence of valuable resources is more of a curse rather than a blessing. In some countries such as Angola, Nigeria, DRC, and Sierra Leone, valuable resources have been associated with political instability. The "resource curse" in these countries has been associated with dependency on windfalls gained, and the pursuant of growth path that is detrimental to non-oil sectors. In these countries, governments are less accountable to their citizens since they get enough revenues to finance public projects through mineral revenues, but not through taxation. The rentier state explains the institutional and governance factors. Less accountability in the rentier state is derived from less taxation on their citizens, and also the existing of weak institutions. Fortunately, resource availability has been a blessing in some countries such as Botswana and Norway. Economists and political scientists shared institutional explanation for the relative success of failures in these countries.

The new oil finds have been reported in countries such as Kenya, Ghana, Somalia and Uganda. In addition, natural gas new finds have been discovered in the East African Coastal region. According to the U.S Geological Survey, the coastal region, stretching out from Seychelles holds 441.1 trillion cubic feet of natural gas. It is 50 percent more than in Saudi Arabia. These new finds can produce 23 billion cubic meters a year. These massive offshore gas discoveries in East Africa may bring billions in investments that could transform the regional economies from Kenya to Mozambique. Houston based Anadarko has announced that the new finds in northern Mozambique have motivated the company to proposed US $ 15 billion investments to set up Liquefied natural gas (LNG) facilities, which is more than the Mozambican GDP of US 12 billion in 2011. Within the next five years, LNG will account for 13 percent of the national economy. Tanzania has around 16 trillion cubic feet. However, these countries have had hurry to date petroleum legislation with the new discoveries. Mozambican government is planning to tax the Cove sale at 12.8 percent. What remains unclear is how the local will benefit from multi-billion-dollar industries. Corruption is a big challenge.

Uganda has been described by the oil industry press as Africa's 'hottest inland exploration frontier' with the estimates of around 1.5 billion barrels of recoverable reserves. It is estimated that the oil rents could contribute up to 15 percent of Gross Domestic Product (GDP) at peak and 10 percent of GDP for a period of 20 years. Oil has been discovered in Bunyoro region in 2006 and the British Company Tullow is licensed to explore 150 square miles kilometer next to the Murchison Falls National Park. French Company Total and Chinese National Offshore Oil Corporation have each acquired for $ 1.5 billion a third of Tullow oilfield. Oil exploration process in Bunyoro region is more advanced nearing oil production while Acholi region is at prospecting stage (Gelb and Majerowics 2011). However, the arrival of oil threatens the country in different ways, given the fragmented national identity, and the increasing mistrust at national level. There is lack of transparency in the oil industry, it is characterized by secrecy. Oil exploration is taking place along the entire western rift of the country, an area that embraces a multiplicity of traditional institutions, people of various ethnic groups, and the local government authorities. The Bunyoro and Acholi regions have conflict histories and current dynamics, including access to land, often bound by inter-ethnic tensions (Alert International 2009).

Uganda now faces the challenges of a "resource curse" in advancing its development goals. The government has repeatedly pronounced that the oil revenues will be used to support the development of infrastructure. However, there is overwhelming evidence of governance problem and corruption, raising institutional problems that are most likely to be associated with the rentier politics. There is high degree of expectations on how the oil revenues will transform the country's development prospects? What priorities should be funded and how the oil revenues can be distributed? Unfortunately, while companies are being issued with licenses, there is no policy framework in place at the moment. The draft of Oil Bill is still being discussed in Parliament. This article argues that Uganda lacks prior proper institutional quality and governance capability as well as political inclusiveness as preconditions to avoid the "resource curse". The article examines the development in resource boom countries from the view point of staple thesis and linkage perspective. Most African states have focused on fiscal linkage "revenue" from oil exploration basing mainly on forward linkage of 'technological alien.' Following Hirschman methodology, this study will first start by describe the development process from staple thesis and linkage perspective. The realization of fiscal benefits depends on the performance (income and multiple purposes) of the staple.

II. APPROACH TO THE ANALYSIS OF WINDFALL EFFECTS: THE LINKAGE THEORY

Under what circumstances, "one thing would lead to another." Hirschman (1981) stipulates that growth in the early stages is most likely to rely on a sequence of the staple activities. The popular "staple thesis" before the 1960s showed how a country's development could be shaped by a succession of primary export products. The concept of linkage is also applicable to both primary and industrial production closely linked to the "staple thesis". The "staple thesis," used by economic historians describes how growth experience in a country is concretely shaped by the specific primary product successively linked to export markets. Although the theory linkage is associated with input-output analysis, in its original form, emphasizes the dynamic to entrepreneurship rather than focusing on its static framework of existing interrelations. In a given social, political and economic context certain characteristics of leading activities are conducive to providing a stimulus. The effects of interaction between the leading sector and other sectors are divided into production linkage, consumption linkage, and fiscal linkage. The efficiency of fiscal linkage is the most important determinant of ultimate benefits. However, achieving fiscal linkage is likely to be difficult, unless the ability to tax is combined with the ability to invest productively. In a situation where earned revenues from the enclave are siphoned off for the purposes of irrigating other parts of the economy, the possibility of either faulty investment or a great deal of leakage is most likely.

The principle features of country's development in the period of export-led growth can be described in terms of linkages derived its staple. Forward and backward linkages can be either outside or inside. 'Insider linkage' denotes undertaking additional activity while 'outsider linkage' refers to new activity taken by foreigners. Fiscal linkage is outside linkage by definition (Hirschman 1981). Therefore, inside linkage is when a state has developed the entrepreneurship initiatives of the old agent and pursuit them to break existing pursuits. Outside linkage has the advantage of mobilizing new agents and prevents concentrating of economic power and wealth. In Hirschman's analysis, outside linkage leads to the provision of public goods by the state, but the state that only knows how to tax a staple may be very far from making effective contribution to development. Instead of taxing staple growers, the state may somehow be pushed to assisting them, promoting new actors to come to development stage. Promoting irrigation, transports and education are good for the staple. It is good for exchange rate stabilization. Fiscal linkage is restricted to the direct participation of the state in the income stream generated by the export sector. During the early stage of export led-growth, state can use indirect taxation as the mainstay of public finance to finance the expansion of government functions and services, promoting infrastructure investment for future expansion of exports. In addition, state can use custom duties of imported manufactured goods. Forward linkages are potential significant to staple-based economic development.

Although foreign enclave has got few defenders, fiscal linkage has a better chance to emerge if the enclave resources are owned by foreigners, as the enclave will be taxed more readily than an activity with dense network. Taxing a foreign company is more easily than assessing nationals who besides owning the resources, run or control government (Hirschman 1981). While linkages have become the language of development economics in which development is accelerated through investment in projects with strong forward and backward linkages, the decision to invest in both public and private sector is not determined by pull of incomes and demands, but response to specific push factors, such as linkages, emanating from the product side. The ability of the state to tap taxes from the new staple and invest in them in productive manner determines the possibility of fiscal linkage. Therefore, a comprehensive appraisal of the existence, strength and reliability of these linkage effects for different staples in various socio-economic setting is one way. What are the conditions favorable for fiscal linkages? The staple must be endowed with strong production, consumption and fiscal linkage. However, this is an ideal situation which rarely occurs. Fiscal linkage has shown strong case in mining and petroleum activities, leading to enclave. The unbalanced path can be more orderly when the ability to tax develops ahead of the ability to invest. This gives little pressure on its entrepreneurial abilities. The government motivation to develop some sector of the economy other than the staple outpaces its ability to extract taxes from the exporting interests and it is common when the staple is owned by national who resist taxation. In Uganda, politicians turned business owned share in this company, and possibilities of resisting taxation is very high.

The task of deploying windfall gains is easier in poorest countries because a wide range of physical infrastructure and human endowments are seriously deficient. The state may restrict itself to correcting such deficiencies rather than stimulating long term-growth. The surplus is likely to be concentrated in the hands of the relatively few decision makers in the government to finance large-scale projects, which may have problems during the implementation stage, which may move the producing country away from economic diversification toward dependence on a few key investments leaving the country more vulnerable than before. At worst, there is a liability of diverting scarce entrepreneurial talent away from commodity production to into "rent-seeking" activities. Public investments may be chosen not for any potential supply contribution, but to enrich contractors and politicians. Therefore, the "rent-seeking" activities may lower the quality of domestic revenue collection (Gelb 1988).

III. RESOURCE CURSE AND RENTIER STATE:

The resource curse has been associated with the "Dutch Disease", which is associated with resource booms, accompanied by appreciations of exchange rates, making the non-oil sector less competitive. The "Dutch Disease" is often characterized by real exchange rate appreciation, high labor costs, and the structural imbalances in economic development (Poteete 2009). Because of currency appreciations, non-oil sectors become less competitive including agriculture and industrialization. Less emphasis on agriculture and industrialization make a country depends on the oil sector as well as reducing their competiveness (Gary and Karl 2003). Similarly, high expectations and the subsequent disappointments from poor performance lead to political instability as small groups become richer while the rest descends into poverty. The inadequate institutional arrangements face a wide range of political, economic, and social challenges such as the likelihood of civil wars and social instability as government competes to control power (Collier 1999). The "Dutch Disease", being considered as the product of rentier politics undermines the long-term economic performance in resource dependent economies resulting in a 'resource curse.' Institutions and state development during resource boom are locked into development trajectories (Poteete 2009). The end result is negative development outcomes such as poor economic performance, growth collapses, and high degree of corruption, ineffective governance and greater political instability.

The 'resource curse' discourse represents inevitable poor economic and political outcomes in countries with valuable resources (Sachs and Warner 1999; 2001) and links resource booms to poor development outcomes. Countries experiencing resource booms can use the new revenues during the booms and remain undeveloped when the booms end. During resource booms, expenditures may expand more than earnings, favoring consumption over investment, leading to accumulation of debt. Policies during the time of natural resource booms result in the pursuit of rentier politics since the country balance of power flows directly from its economic structure (Karl 1997). It is believed that restricting the immediate flow of new revenues into the domestic economy can limit the effect of Dutch Disease (Ross 1999; World Bank 2002). Measures such as commodity stabilization funds, foreign reserves, and international lending may be useful to the economy. In most cases new revenues are susceptible to rentier politics.

In this case, Nigeria could be a classic example of the "paradox of plenty," with proven reserves of approximately 30 billion barrel, ranked behind other producing countries such as Saudi Arabia, Venezuela, Iran and United Arab Emirates. As a resource curse country, petrodollar accounts for 83 percent of federal revenues, 95 percent of the export earnings and approximately 40 percent of the GDP. The emergent of oil sector in the 1960s was associated with the mismanagement and rent seeking. The "Dutch Disease" was associated with overvalued exchange rate that negatively affected the agricultural and manufacturing sectors. Resource booms and bursts made the government to launch and abandon development projects due to decline in oil revenues. In the Niger Delta, resource curse has been accompanied by political decay, human right violations, violence and loss of livelihoods (Gary and Karl 2003).

A 'resource curse' of valuable natural resources has been associated with rent seeking authoritarian rule and political instability. Revenues from these resources are often channeled through the state and attract demands for increased expenditures (Karl 1997; Ross 1999, 2001). These demands often result into increased labor costs, appreciation in currency rate, and consumption of economic rents. At this point, it is commonly agreed that rentier politics undermines positive development outcomes especially in countries where natural resources are controlled by states.

The rentier state is linked to the 'staple thesis' which explains how natural resource endowments shape production relations. The 'staple thesis' demonstrates that backward areas commonly began through the initial stimuli brought by primary product exports in terms of attracting capital and labor and inducing a diversified production structure (Innis 1930; Watkins 1963).The rentier state (Karl 1997) assumes that rulers assume to 'own' natural resources by assigning to them property rights over the natural resources, and also tend to be predatory as opposed to developmental aims. The argument is that economies will have rarely diversity agriculture and manufacturing when resource valuables are booming. It states that states create and maintain growth restricting policies and exhibit extraordinary large degree of rent-seeking and corruption. The existence of mineral rents increases rent-seeking and corruption relative to economies with lower mineral abundance. As a result, increases in rent-seeking and corruption generate lower growth because a corrupt adds on transaction costs, and the need to keep bribes secret reduces the security of property rights, lowering investments in the long-gestation. When it comes to taxation, oil rents provide a significant fiscal base for the state and also reduce the necessity of the states to tax their citizens. The absence of incentives to tax internally weakens the administrative reach of the state, which results in lower levels of state authority, capacity and legitimacy to intervene in the economy (CGD 2004:56-57).

This calls for greater transparency in the payments made by the multinationals in extractive industry to host governments (CGD 2004). There is also need to diversity mineral dependent economies towards agriculture and manufacturing (Ross 2001). In practice, the state is relevant when the discretion to allocate resources is primarily placed in the control of state leaders. Di John (2010) argues against the proposition that oil abundance induces extraordinary corruption, rent-seeking and centralized interventionism and that states are necessarily growth-restricting, and that the proposition lacks comparative or historical evidence. In addition, levels of state centralization and corruption coincided with the cycles of growth and stagnation in mineral and fuel economies. The extent to which mineral and fuel abundance generate development outcome depends largely on the nature of the state and politics as well as the structure of ownership in the export sector, all of which are neglected in the literature of resource curse. Much more attention is needed to examine why some countries were able to be effective in using their rent productively.

The predominant view in oil economies is that they are subjected to a higher level of rent-seeking and corruption when compared to non-mineral abundant economies (Di John 2010). However, the rentier state paradigm has been criticized for lacking historical evidence. Countries such as USA, Canada, Sweden, Netherlands, Australia, and Malaysia all began as mineral-dominant economies in the earlier stage of development, with less diversified economies (Findlay and Lundhal 1999). It also fails to explain the possibility that mineral abundance can be central to the development of manufacturing (Wright and Czelusta 2007). It cannot explain the long run variation and change in growth of mineral economies in Africa (Botswana, Angola and Nigeria), as well as economic growth in non-mineral economies are not well explained (China, Malawi, Tanzania), and the recent growth accelerations in aid-dependent economies (Uganda, Mozambique, Tanzania and Ghana). Mineral abundance economies do not also appear to be more corrupt than non-mineral abundant economies and the liberal policy in this case matters more than the levels of rents (Di John 2010).

IV. ABSORBING MINERAL RENTS: DO MINERALS PROMOTE DEVELOPMENT?

The effect of mineral rent on development has been recorded as mixed. From the 'staple thesis' perspective, success depends on successive activities rather than a single focus as evidenced in the growth process of high income countries such as United States, Canada, and Australia (Reynolds 1979). A strong comparative advantage in coffee provided funds and demand to stimulate growth around Sao Paulo (cf. Gelb 1988), the discovery of gold fields in Witwatersrand spurred the development of modern South African economy (Houghton 1972).

While mineral production is often associated with the Ricardian rent that accrues to owners of reserves that are particularly concentrated or that have low extraction costs, agricultural commodities could also generate rents over and above normal returns to factor productivity, leading to the emergent of competitive producer (Gelb 1988). Therefore, any assessment of the role of rent in development should be broadened to include other countries other than mineral exports. The features of mineral production may include: (1) it is based on large-scale; (2) enclave; and (3) capital-intensive, usually with close link with multinational firms, paying relatively higher wages compared to with the rest of the economy and with high degree of uncertainty (Bosson and Varon 1977).

The new oil finds raise the various possibilities of distributing oil rents to the population? There may be direct transfers as witnessed in Alaska, individual transfer through the pension scheme as seen in Bolivian natural gas revenues. For the case of Uganda, the government is committed to use the oil revenues for growth-enhancing infrastructure investments and industrial development (Gelb 2011). Instead of exporting the crude oil through the pipeline to the coast, the government has now decided to build an oil refinery in Hoima district so as to sell the refined products into the local markets.

The ultimate impact of oil revenues depend on policy choices adopted by the government that may not be limited to extraction rates and public spending, but also possible shifts in trade and other policies in response to the national income. These gains are determined by two underlying factors of political and administrative nature. There must be stable government, in addition to unity or centralization of decision making. Gelb (1988) favors a single agent to make decision which is consistence at all levels. This minimizes the danger of inconsistent decision made by competing powerful actors such as autonomous public enterprises or an equally strong executives and legislature.

Trade policy alone cannot protect all sectors simultaneously. It can even depress agriculture. There is need for exchange rate protection for all sectors producing non-oil traded goods. This calls for saving abroad rather spending domestically. Also, public spending programs that are import intensive determined the level of rent absorption. Oil revenues can be used to subsidize non-oil traded sectors. Whether a given sector expands or shrinks during the boom depends on three characteristics: (1) its degree of tradability, (2) the absorptive elasticity of demand for its output, and (3) its factor requirements relative to those of the most rapidly growing sectors (such as construction and government services) (Gelb 1988:42-43). Absorption policy choices (Gelb 1988) may be theoretically arranged in hierarchical order, in reality some of the decisions would be made simultaneously include:

1. The rate of extraction. Optimal extraction depends on the opportunities and domestic investments. A country can borrow from abroad and oil is kept for in the ground for future extraction.
2. The proportion of revenue to be absorbed at home as opposed to being saved abroad by constraining public sector borrowing, but encourage private sector to increase domestic absorption.
3. The type of absorption. May be in terms of funding public investments, consumption, or transfers to the private sector. Taxes may be reduced on non-oil taxes as well as offering subsidies.
4. The thrust of public investment to be funded (or encouraged) by oil revenues. This can be done by encouraging non-oil tradable sectors, agriculture, manufacturing and natural resource processing. This can be done by asking the following questions. In addition, funding can target infrastructure including physical capital (transport, communications and power supply) to serve production; physical "social" capital (housing); and human capital (education and health). The first approach will be a more direct strategy to diversify out of oil and the second approach is an indirect attempt expected to end dependence on oil.
5. The methods of rent transfer to recipients to potential recipients – firms and households either through direct transfer or commodity (credit) subsidies.
6. Whether the emphasis id urban or rural, and whether regional decentralization (perhaps through the establishment of new industrial centers) is an important objective (as summarized from Gelb 1988:40-42).

V. FROM PATH DEPENDENT TO POLITICAL COALITIONS: MIXED OF EXPLANATIONS FOR BOTSWANA’S RELATIVE SUCCESS:

Most explanations on policy choices focus on institutional development and state building. The competing narratives on resource curse and rentier state range from those focusing on policies (Shaxson 2005; World Bank 2002), institutions (Acemoglu et al. 2001, 2003; North 1990) and state building (Karl 1997; Ross 2001). States with well established structures and good transparency record are most likely to manage resource boom (Karl 1997; Ross 2001). Institutional choices generate increasing returns and could promote the protection of private property rights (Acemoglu et al. 2001). Strong institutions and policies promote transparency, accountability, and security which encourage investments (North 1990). Institutional development encourages domestic economy to adopt policies that promote economic growth (Karl 1997; Ross 2001). Rent capturing discourages the development of institutions for a broad-based taxation unless they were already existing (Karl 1997). The government that depends on revenues from resource booms and could not easily change to alternative revenue sources gets locked into a path dependent of resource trajectory. Resource booms in a weak state are more susceptible to rentier politics. The government struggles to control the new revenues (Karl 1997), creating of a rentier class and the remaining independent middle class may push for a policy change in the political trajectory (Ross 2001). Policy choices, institution and state building arguments however, failed to account variations in state building across countries.

How can we account for these variations in state building? Poteete (2009) agues in favor of new dimension, political coalitions which prevent narrow mined politicians from pursuing rentier politics. Politicians with broader and more stable coalitions are less likely to turn to rentier politics to bolster political support. They are contended of reaping benefits from investments in state building since the product of politics, policies and institutions are subjected to change with political coalitions. He explains how Botswana responded to resource booms and grounded his analysis on the relevance of political coalitions. Botswana’s state institutions were new and fragile when diamonds discovered. However, it relatively managed to avoid the ‘resource curse.’ Politicians built a broad and stable electoral coalition that supported both the development of state institutions and adoption of policies conducive to long-term economic growth and political stability. He further noted that domestic factors alone were not enough for the Botswana’s success. The role of South Africa, especially during the apartheid regime and its membership in the Southern African Customs Union represented significant constrains. These external constrains reinforced the important of growth as a source of security and limited options for monetary and trade policies.

While North (1990) and Evans (1995) linked variations in economic and political development as products of either rentier state or development state, Poteete (2009) argues against the path dependency analysis of resource booms for making implicit deterministic prediction and provide no explicit insight into cross-national variation or changes in performance. He argues that domestic coalitions and external conditions constrain guided Botswana to success and avoid policy bias against trade sector. During the diamond boom, broad involvement in livestock production for export provided a broad and stable anti-appreciation coalition. Dependent on a South Africa, which was also reinforced by membership in Southern African Customs Union, constrained policy choices. Furthermore macroeconomic policies were depending on the relative representation of increasingly diverse economic interests in the positions of political power. The increases of non economic issues make policy makers to consider non-economic issues. Furthermore the influence of leadership and choice cannot be overstated. Politicians within the Botswana Democratic Party operated strategically within the political opportunity structure.

He argues that it was the political coalitions that lay the foundation for development of state and other institutions. Changes in coalitions drive changes in policy responses to resource booms. He however, acknowledges that Botswana did not entirely avoid the symptoms of “Dutch Disease,” but were largely in check despite the fragility of the state institutions when diamonds were discovered. It was a broad and stable political coalition during the first decades of independence that encouraged adaptation of pro-growth policies and institutions. Instead by being locked into a persistent development path, institutions gave room for changes in political coalitions. Changes in political coalitions are also likely to change economic policies and performance. Political coalitions link social actors to institutions building and policy adoption. The stability and breath of political coalitions during windfall explains the variation of severity of rentier politics. In a country with narrow and unstable political coalitions, revenues from resource booms are most likely to feed a strategy of rentier politics that will interfere with the state building and also increase the possibility of “Dutch Disease”. In this scenario, rentier politics is a strategic response to unstable political coalitions, in which supporters unit to compete in sharing resource rents However, viable development outcomes are reflected in the diversity of political coalitions.

A number of factors explained Botswana’s success ranging from institutional to political inclusiveness portrayed by the post independent leaders. At independent in 1966, Botswana was a poor country depending on cattle exports, remittances from migrant labor at South African mines, and foreign aid (Auty 2001). It however, achieved economic diversification and avoided structural imbalances. Botswana's relative success can be attributed to: (a) relative stability of its real exchange rate; (b) accumulation of foreign reserves; (c) a relatively balanced pattern of growth, and (d) the survival of multiparty elections. The relative success was mainly due to the formation of a broad, stable political coalition in the early years of independence provided the basis for pro-growth macroeconomic policies and state building. The diamond mining started in 1971 at Orapa, Botswana could not experience exchange appreciation associated with the Dutch Disease because it had no independent currency, as a member of Rand Monetary Area. When it started the second mining at Letlhakane, Botswana introduced it owned currency, Pula, but maintained a stable real exchange rate with the South African Rand up to the 1990s. When Pula began appreciate against export currencies although Pula was stable against the Rand, the government devalued Pula to 12.5 percent through the introduction of crawling peg (Gaolathe 2005). It was currency reserves that helped Botswana to stabilize domestic spending when diamond prices dropped in 1908s (Hermans 1997).

The rapid expansion of construction in the late 1980s into the 1990s was a symptom of over-consumption of resource booms. However, much of the construction was in productive enhancement infrastructure roads, schools, and clinics (Atkinson and Hamilton 2003). However, the boom also created opportunity for rent seeking when government started building many new administrative buildings. The limited expansion other sectors such as manufacturing and the subsequent expansion of construction was a sign a Dutch Disease. Botswana in between 1960 – 2003 had the highest average growth in GDP per capita of 6.31 percent, featuring among the emerging countries such as China (5.99 %), South Korea (5.81%) and Oman (6.21%) (World Bank 2005)

Institutional theorists believe that policies that foster economic prosperity is likely to introduce that protect private property in settler colonies (Acemoglu et al. 2001; 2003). Private property in Botswana developed despite the limited colonial interest in the limited interest in the country (Acemoglu et al. 2003). Lack of colonial engagement allowed the survival of precolonial institutional that resulted into broad-based checks on political institutions and gave rise to political elite an interest in protecting private property. Pre-colonial politics were characterized by frequent divisions and shifting alliances and during the colonial rule British fixed tribal boundaries and also interfered by selecting and retaining chiefs (Tlou 1985).

Political coalition is another narrative explaining Botswana good performance. Botswana is one dominant political party system. However, this dominant political party is a product of broad based political coalition – Botswana Democratic Party. BDP adopted policies that balanced appeals to different constituencies. Botswana economic and political vulnerability to South Africa during the apartheid was a uniting factor and gave support for the BDP (Doner et al. 2005; Molomo 2000). The political coalition of BDP brought different groups with potentially different interests through building economic interdependencies. Political rivals and marginalized groups were brought together, contributing to the country's success. BDP had to manage ethnic politics between the elite and masses. There are eight Tswana merafe: the BaKweneng, BamaLete, BamaNgwato, BaNgwaketse, BaRolong, BaTawana and BaTlokwa. However, the merafe had been known for leadership struggles, division and competition (Tlou 1985). BDP has a closed tied with the BamaNgwato in the central and the BaKwena in the central district (Rule 1995) and BDP has low support in non-Tswana populations in the North East and North West. Poteete (2009) however, argues that to some extent, the political coalitions reflect structural changes citing the fluidity in the BDP in Botswana. The decline of agriculture and rapid urbanization decrease the electoral value of BDP's rural base. At the same time a less threatening international situation makes the opposition a more credible alternative. Changes in political coalition create opportunities for policy change and the new patterns of political development emerge. Divergent economic interests combined with the increasing political competition decrease the livelihood of anti-appreciation policies. Why? Heightened political competition promotes a conservative and technically oriented approach to macroeconomic management and other policy areas become difficult to defend. Also, heightened competition encourages mobilization along new lines such as ethnic identity, and may decrease the priority policy makers give to macroeconomic management. This dynamics may have contributed to Botswana's pursuance of ambiguous macroeconomic performance over time.

VI. ASSESSING THE RESOURCE CURSE IN UGANDA:

Assessing the 'resource curse' requires an understanding on the quality of institutional and governance capabilities. The observation is that Uganda experiences poor prior institutional quality. As argues by Poteete (2009), political coalition is very fundament in avoiding the political leaders to pursue rentier politics. This is however, contrary to Uganda's case that lacks prior institutional development, non- existence of political coalition. While the government is opportunistic that oil revenues will be used to boost investment in infrastructure, increasing growth and diversifying the current agricultural based economy towards industrialization; a review of institutional and political development shows Uganda may not be an exceptional case. The new oil finds in Uganda depends on state's institutional capacity and governance capability. This line of reasoning is commonly shared with the mainstream institutional economists and political scientists. As earlier on argued by institutional proponents, a country with a prior institutional capacity is most likely to avoid the "paradox of plenty" which is associated with the Dutch Disease. A country that starts with weak institutional capacity and poor governance is most likely to be susceptible to resource curse. The World Bank (2010) points that the new revenues from the resource booms are most likely to exacerbate institutional weaknesses, leading to rent seeking and poor governance. The problem of resource rich nations in this case, is not the abundance of natural capital but the lack of complementary governance and human capital. In most traditional oil exporters, oil revenues tend to be misused or misallocated, sometimes used to maintain the incumbents in power (Karl and Gary 2003). In this section, we shall examine a number of factors that may raise doubts on the benefits of new oil finds in Uganda.

i. The Political Coalition factor:

Uganda was once applauded by the donor community as a gold standard for a new kind of 'developmental' African leadership. However, the popularity of the NRM leadership has reached a diminishing return. The leadership under NRM is now being increasing entrenched, clientelistic and corrupts (Global Integrity 2009). President has remained in power for more than 25 years, without clear succession leadership planning. The NRM is more personalized around the President Museveni than on an institutional capacity (Global Witness 2010). It is even more mercurial as the new oil finds coincides with the decrease popularity National Resistance movement government in the managing the economy.

While the link between taxation and accountability is theoretically well established (Brautigam 2008), there are specific reasons to question the ability of this mechanism to work in young democracies. A young democratic country (Uganda) without established programmatic political parties rely more on personal appeal at the ballot box than a coherent party-platform backed by credible campaign promises (Keefer and Vlaicu 2005). The accountability mechanism between broken campaign promises (failure to improve schools, health) and the consequence of being voted out of political office might not materialize in systems that rely on patronage and clientelism for political survival. Accountability through elections may slowly develop over time.

When one considers the social fragmentation, Uganda is a fragmented national identity and oil discovery is increasingly becoming relevance to ethnicity. The oil areas have conflict histories. Common conflicts include access to land, often associated with inter-ethnic tension. The potential conflict could be clustered to include political, land conflicts, economic, social and environmental, as well as communication problem between oil companies and communities.

ii. Corruption:

The government has featured in a number of high profile corruption including Global Fund, GAVI, the AIDs information center, National Medical Stores, the 2007 Common Heads of Government Meeting (CHOGM). There were numerous irregularities in education, energy, police, social security, and ghost workers in the public sector. A report by Uganda Inspectorate of Government (2010) concludes that "corruption remains an impediment to development and a barrier to poverty reduction in Uganda" (p.6). The world World Bank Report on corruption in Uganda – losing UGX 500 billion due to corruption. Corruption in the form of patronage and clientelism, is entrenched as a tool for rewarding political loyalty and securing support for key constituencies in the military and governments (Global Witness 2010). It has become a critical mechanism through which the regime stays in power. One area where systematic corruption is serous is in the procurement. Procurement is Uganda is associated collusion, bribes and inducements, political interference, lack of supervision and issuance of false certificate of completion (Transparency International 2003; IGG 2010). 80 percent of Ugandan firms surveyed reported to have paid bribes, which account for 7.9 percent of the total costs (Svensson 2000).

iii. Institutional Quality:

Uganda has a low institutional capacity and weak governance. As stated by the staple thesis, the ability of the state to benefit from the staple depends on its ability to tax the valuable staple. It is however noted that Uganda has a narrow and ineffective tax system. The system is characterized by tax evasions and arbitrary exemptions (AfDB 2010), mostly due to corruption. For example, the Uganda Revenue Authority (URA) was ranked the most corrupt institution in the country and seven most corruption in EAC countries (AfDB 2010). The problem of political patronage is extended to the tax system, association with exemptions and tax incentives granted on political and ad hoc basis, undermining fairness and the breadth of the tax system.

What about the benefits to the community? How should the nation spend the rents? There are many alternatives to using the resource revenues. Uganda's administrative system is multi-layer consisting of central and local government structures. Transfers to individuals could provide a huge income boost to those with low income. Another concern is the weak local capacity of local government as a platform for a decentralized development approach. After an ambiguous project to start decentralization, there has been retreat from providing unconditional funding to district-level. District level governments do not have the capacity to manage funds effectively. Moreover, roads and power lie outside the purview of an individual district government. However, Uganda has no national identification scheme.

Oil revenues can be redistributed to citizens through a transparent, universal, cash transfers (Moss 2011). Rents can be transferred through pricing. This is often done through fuel subsidies. However, fuel subsidies have been criticized within the mainstream neo-liberal economics. Transfers can also be done through the communities. Under this arrangement, oil rents can be transferred through community-based programs. These programs could successfully create rural jobs, building rural infrastructure and building local capacity. However, community based programs are most likely to fail. The low capacity at the district level needs to be addressed.

The 2010 despite between Tullow Oil and government over the capital gain tax payable with the sale of Heritage's assets to Tullow Oil may delay the planned moves to bring CNOOC and ENI to partner with Tullow in the development of the reserves. These despite may affect the fiscal revenues from the oil Geld 2011).

iv. Ethno-Politics and Oil Expectations:

According to Migdal (1988), social fragmentation was a product of low political consolidation in the past and also an obstacle to state building. Political coalitions make states less predatory (Tornell and Lane 1999). Political fragmentation encourages rent seeking activities and this exacerbated in weak institutions.

History has created variations of land rights across geographical regions in Uganda and where oil exploration is taking place, these regions have got different institutional set up such as traditional institutions, various ethnic groups, and local government authorities. In Bunyoro region where new oil finds are found had historical marginalization since the colonial period. While colonial government gave Buganda Kingdom a "mailo land", a private property right, Bunyoro was not given. Bunyoro land was either declared public land or appropriated by the central government or, customary land, which remained largely unregistered. Oil and gas finds, discovered in Bunyoro in 2006 stretch out North of the Rift Valley. Among the companies is the British Company Tullow which has a license to explore 150 square miles kilometer next to the Murchison Falls National Park. French Company Total and Chinese National Offshore Oil Corporation have each acquired for $ 1.5 billion a third of Tullow oilfield. Oil exploration process in Bunyoro (e.g. Bunyoro and Buliisa) is more advanced nearing oil production while the process is at prospecting stage in Acholi (Nwoya) (Alert International 2009).

The discovery of oil has brought about unprecedented interest in land in the regions as people rush to position themselves for the potential benefits from the oil either directly or indirectly. The regions have been characterized by increasing land titling as well as land conflicts. The oil has pitted the elite and resource rich individuals, companies and government on one hand against the poor uninformed citizens of the region on the other. There is increasingly scramble for access to land, leading to rapid transition of customary or common land into registered tenure (leaseholds), and subsequent exclusion of communities from common lands and resources. A fraudulent sale of land in areas where oil has been discovered further undermines confidence and fear of 'land grab' by oil companies or government without compensation exacerbates tension. Speculative land buying related to oil by newcomers are common practices frustrating local communities in the regions.

The discovery of oil in Acholi sub region threatens to exacerbate anxiety about land in the region as well as mistrust of investors and political process in general. Lack information on both parts of the community and local leaders is also a major source of tension. It is also worthy to acknowledge that in the marginalized areas, local people are usually more dependent on local resources, mostly related to availability of land.

Balaalo displacement from the Albertine Rift Valley has wider implications. Balaalo are closely linked with senior government officials and army officials. They are cattle keepers of senior government officials and army officers in the oil affected areas. They are now moving with their cattle to neighboring regions where agriculture practices predominate. The extractive industry has both direct and indirect impacts on livelihoods. Speculation over land leads to increase in land prices, land grabbing and tensions over land with the potential of flaring into conflicts. This is evidenced in the Bunyoro region (ULA 2011).

Bunyoro has a widespread customary and communal claim and access to territorial domains including resources; predominantly leaseholds; and the regions are sparsely populated that leaves large tracts of land uninhibited. This creates on opportunity for intruders and other opportunities. In Acholi sub region, it has experienced prolonged wars for 20 years and this has resulted into displacement of 1.8 million peoples who only started returning home in 2007. Exploration in Acholi region (e.g. Nwoya district) falls under Block One and licensed to Tullow Oil and in 2004 and Tower Resources in 2005 respectively. Oil exploration has resulted into restriction of access to resources from which livelihoods are derived. In addition, there is expansion into gazette land around prospecting areas to restrict access to such areas. Increasing land disputes in the areas are fueled by corruption and lack of information on land ownership and transactions.

Bunyoro kingdom rejects the claim by Uganda Wild Life Authority over section of the oil-rich land. The kingdom believes it has existed for centuries ago, and historically and culturally owns the land where oil is being discovered. They also argues that the government most of the Kingdom's land for wild conservation in areas such as Murchison Falls National Parks and Bugungu and Karuma wildlife reserves, including government allocation of substantial parts of other sub-counties to allow the establishment of the Kinyara sugarcane factory and other privately-owned ranches, both of which lead to the eviction of a number of people who still claimed they have not been compensated (International Alert 2009:48).

Oil expectations are very high in Uganda at different levels. At the Local Government level, oil is expected to boost Local Government finances, and promote economic development. Bunyoro officials and local communities expect oil revenues will bring better infrastructure, improved education and health services, as well as creating employment. Oil companies had signed Production sharing Agreements) PSA and are kept in away from the public. It stipulates that 80 percent for Uganda, 17 percent for the oil companies, and 3 percent for the local land owners.

VII. POLICY IMPLICATIONS AND CONCLUSIONS:

To realize positive development outcomes from the new oil finds, the government will have to learn from those countries that managed to avoid to "paradox of plenty" and those that did not. The issue of transparency in awarding new contracts and licenses, institutional arrangements for revenue collections and management, clear rules and responsibilities of oversight institutions are all fundamental. Ensuring participation and consultation of all stakeholders including civil society organizations are essential for improving on the quality of governance. Institutional quality has been credited in Botswana and other countries that managed to avoid the "paradox of plenty" and this is relevant to improving the institutional capacity of National Environmental Management. The element of political inclusiveness of powerful interest groups is necessary element to rentier politics. The state must really fight corruption. The country has paid little attention to managing ethno-politics and the new discoveries are taking place in increasing politically marginalized regions of the country. This may lead to tribal and underdevelopment.

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