

Strengthening Uganda's Management of Uncertain Oil Revenues

PAUL BAGABO AND THOMAS SCURFIELD

JULY 2025

Natural Resource Governance Institute

Contents

Key messages 3

Summary 4

Introduction 7

Uganda's oil revenue outlook 8

Immediate implications of revenue uncertainty 11

Uganda's revenue management framework 12

Reforms to the revenue management framework 14

Conclusion 32

Endnotes 34

Cover image: Photo by ACODE

Key messages

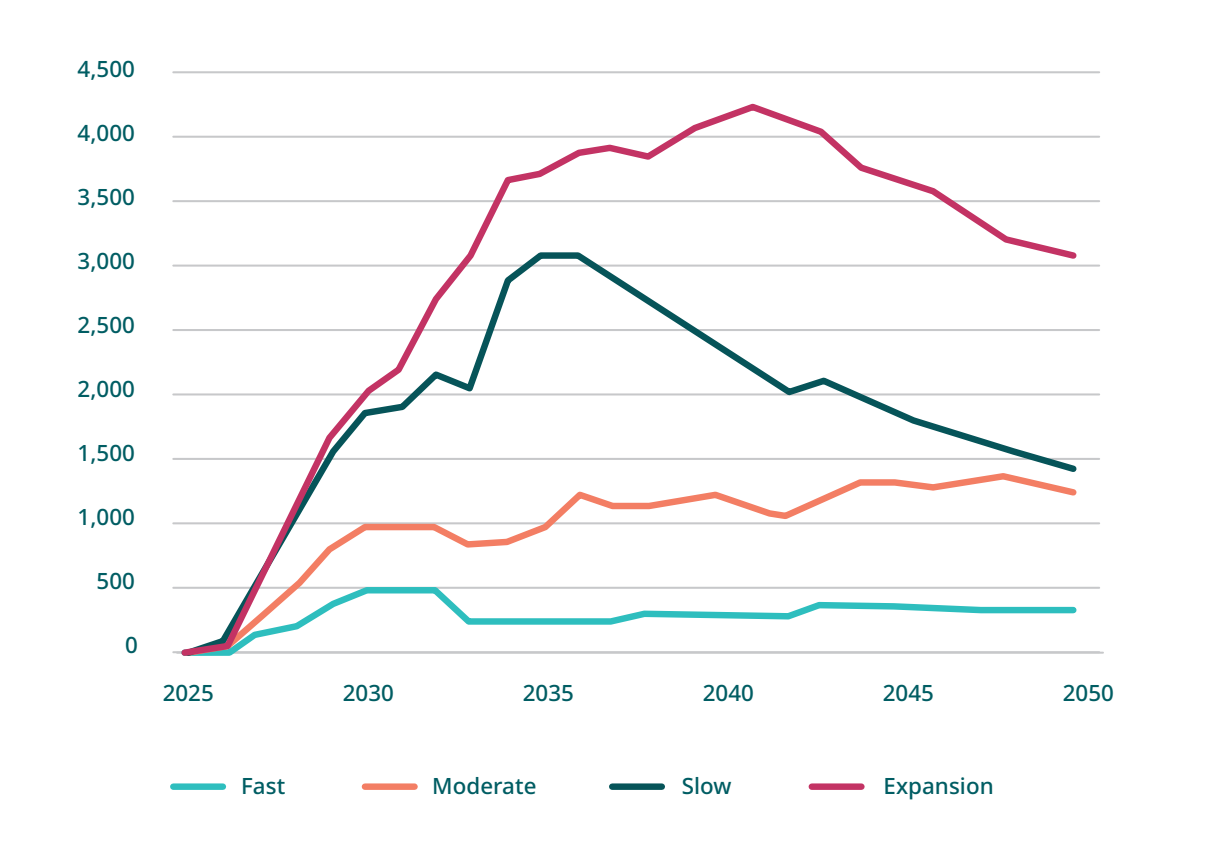
- The Uganda government expects oil production to start in 2026, but how much government revenue this production will generate is uncertain. Projections by Rystad Energy and the Natural Resource Governance Institute average around USD 1.9 billion a year up to 2050 if the global energy transition is slow, but only $1 billion a year in a moderate transition scenario.
- While the government has established a revenue management framework with several strengths, the Ministry of Finance, Planning and Economic Development (MoFPED) could finetune this framework before first oil through reforms to the Public Finance Management Act 2015 and via regulations.
- MoFPED could require that oil revenues are spent on diversifying the economy; legislate a stronger limit on recurrent spending; and clarify its approach to revenues deposited in the Petroleum Revenue Investment Reserve, including by prioritizing paying off high-interest debt and considering a stabilization buffer to use for significant shocks.
- In coordination with the Ministry of Energy and Mineral Development (MEMD) and Uganda National Oil Company (UNOC), MoFPED could clarify the procedure for financing UNOC investments from the Petroleum Fund, and UNOC's ability to retain revenues, and ensure parliament has oversight of the company's investment plans across a range of scenarios.
- MoFPED and MEMD could also clarify the mechanism for subnational revenue sharing, including which local governments and cultural or traditional institutions will receive a share and how that share will be determined.

Summary

Uganda is on the brink of oil production, with the government currently expecting first oil from the Lake Albert project in 2026. French supermajor Total E&P, Chinese state oil company CNOOC and Uganda National Oil Company (UNOC) are expected to supply a planned domestic refinery and export the remainder through the East Africa Crude Oil Pipeline (EACOP), currently under construction. First oil will mark a major economic milestone. Oil revenue could significantly strengthen Uganda's public finances over the coming decades. However, as with all oil-producing countries, revenue projections are highly uncertain. The global energy transition makes the outlook particularly difficult to predict.

Modeling by Rystad Energy and NRGI suggests that under a slow energy transition, government revenues could average around USD1.9 billion per year between 2026 and 2050—about 9 percent of total government revenue during that period. To put this in perspective, if the government received that amount today, it could cover more than the entire health budget or nearly two-thirds of the interest payments it expects to make on public debt in 2025/26. However, revenues could be substantially lower. Under a moderate transition scenario, projected average annual revenue falls to $1 billion or 5 percent of government revenue.

Uganda's government oil revenues across energy transition scenarios (USD millions, 2025)



This uncertain outlook underscores the need for cautious fiscal planning and avoiding increased borrowing or spending in anticipation of large revenues. Uganda is already familiar with the risks. After oil was discovered in 2006, public pressure to increase spending led to borrowing that became harder to manage as production timelines slipped. As production nears—and even after it begins—the government must avoid repeating those missteps.

The government could strengthen its revenue management framework more generally ahead of first oil. Uganda's Public Finance Management Act (PFMA) 2015 governs the collection, deposit and use of petroleum revenues. These revenues must first be deposited into the Petroleum Fund, and may then be transferred to the Consolidated Fund, the Petroleum Revenue Investment Reserve (PRIR) or—since a 2021 amendment to the PFMA—to UNOC. The PFMA also mandates a Charter for Fiscal Responsibility (CFR) at the beginning of each government term that outlines medium-term fiscal objectives.

While the PFMA and CFR provide a solid foundation, the following reforms could help ensure that revenue management is sound:

Revenues deposited in the Petroleum Fund

- Define "petroleum operations" in the PFMA or Income Tax Act to include EACOP and the refinery, ensuring revenue from all parts of the value chain is deposited in the Petroleum Fund.
- Require UNOC dividends to be deposited in the Petroleum Fund.

Spending of petroleum revenues

- Make explicit in the PFMA that oil revenues should support key development goals, particularly economic diversification.
- Use the non-oil primary balance as the main fiscal anchor in future CFRs, and include borrowing by state-owned enterprises in calculation of the balance.
- Reassess the CFR's limit on recurrent expenditure to ensure adequate development spending, and codify this in the PFMA.

Use of PRIR funds

- Clarify PRIR's objectives in the PFMA and align related provisions accordingly.
- Prioritize paying down high-interest debt with PRIR funds.
- Allocate a portion of remaining funds to a stabilization buffer, to be used only for major shocks.
- Restrict PRIR investments to foreign, non-oil assets and define qualifying instruments in the PFMA.

UNOC financing

- Clarify in the PFMA or related regulations how UNOC's access to Petroleum Fund resources is sequenced relative to the Consolidated Fund and PRIR allocations.
- Require UNOC to publicly disclose investment plans under different scenarios before parliamentary approval.
- Establish that any additional UNOC funding needs will be covered through multi-year budget allocations.

Petroleum Fund balances

- Clarify the treatment and oversight of Petroleum Fund balances to ensure proper management and transparency.

Subnational sharing of royalty revenues

- Clarify revenue-sharing formulas both for local governments and cultural and traditional institutions.
- Require these entities to use petroleum revenues in line with key development priorities.
- Specify that local governments can carry forward unspent petroleum funds to future years.

Compliance and oversight

- Clearly define in the PFMA what constitutes an "unanticipated economic shock" for purposes of invoking the escape clause, and require public disclosure when the clause is used or CFR objectives are otherwise breached.
- Ensure the auditor general, Parliamentary Budget Office and relevant parliamentary directorates have sufficient resources to monitor compliance and utilization of oil revenues.
- Require comprehensive disclosure of UNOC finances and investment plans, along with the government's long-term oil revenue forecasts and underlying assumptions.
- Set criteria in the PFMA for how much a new CFR can differ from the previous one, and require justification for major changes, ensuring continued alignment with East African Community fiscal convergence targets.

Uganda stands at a critical juncture. Oil production has the potential to support transformative development, but only with prudent management. By acting now to strengthen the country's legal framework, the government can ensure that oil wealth delivers long-term benefits for all Ugandans.



Photo by ACODE

Introduction

After a long wait since oil was first discovered in 2006, Uganda is on the brink of production. The government currently expects first oil from the Lake Albert project in 2026.[1] This project—led by Total and CNOOC, and made up of the Tilenga and Kingfisher blocks—could produce around 1.4 billion barrels of oil in total.[2] In addition to developing the oil fields, the companies are constructing EACOP, which will have the capacity to export 246,000 barrels per day (bpd) of oil.[3] The government is also planning construction of a 60,000 bpd refinery, for which it signed an agreement with Alpha MBM Investments in March 2025.[4]

Uganda's public finances could receive a considerable boost from oil revenue over the next few decades. However, the global energy transition makes the outlook for the sector—and therefore the government revenue it will generate—particularly uncertain.

Greater national revenue is much needed, following a particularly challenging period for the economy. A confluence of shocks, including the COVID-19 pandemic, the Russian invasion of Ukraine and ensuing inflation, have tightened global financial conditions, with fewer funds available and higher borrowing costs.[5] This global tightening has compounded the impact of a significant reduction in concessional financing for Uganda in recent years and continued challenges with domestic revenue mobilization.[6] Growing geopolitical turbulence and increasing trade barriers—exacerbated by Donald Trump's return to power in the U.S.—could create further challenges for the Ugandan economy, both through higher barriers to Ugandan exports and lower global economic growth.[7]

Uganda has sensibly developed a framework for managing its oil revenues in recognition of the lessons from other oil-producing countries, many of which have failed to benefit as they should. Instead, they have seen their oil revenues squandered, wider public finances deteriorate and economies suffer because of poor revenue management practices.

The government of Uganda set out the broad framework in the Oil and Gas Revenue Management Policy in 2012. Part VIII of the Public Finance Management Act 2015 (PFMA) builds on the policy, setting out provisions for the collection, deposit, management and use of government revenue from the sector. These provisions center around the establishment of a Petroleum Fund, into which petroleum revenues will be initially deposited before being transferred either to the Consolidated Fund, the Petroleum Revenue Investment Reserve (PRIR) or, following an amendment in 2021, to the Uganda National Oil Company (UNOC). The PFMA also requires the government to produce a Charter for Fiscal Responsibility (CFR) at the start of every term in office, which sets out its medium-term fiscal policy objectives. The current CFR covers 2021/2022 to 2025/2026.[8]

The PFMA and accompanying CFRs provide a solid foundation for effective revenue management, but the Ministry of Finance, Planning and Economic Development (MoFPED) could strengthen this framework further.[9] MoFPED should be able to make some of these changes through regulations. However, other changes will likely require amendment of the PFMA itself.[10]

With first oil as little as one year away, this report discusses the key issues that amendments to the PFMA or regulations could address. It is structured as follows: 1. Uganda's oil revenue outlook 2. Immediate implications of revenue uncertainty 3. Uganda's revenue management framework 4. Reforms to the revenue management framework.

Uganda's oil revenue outlook

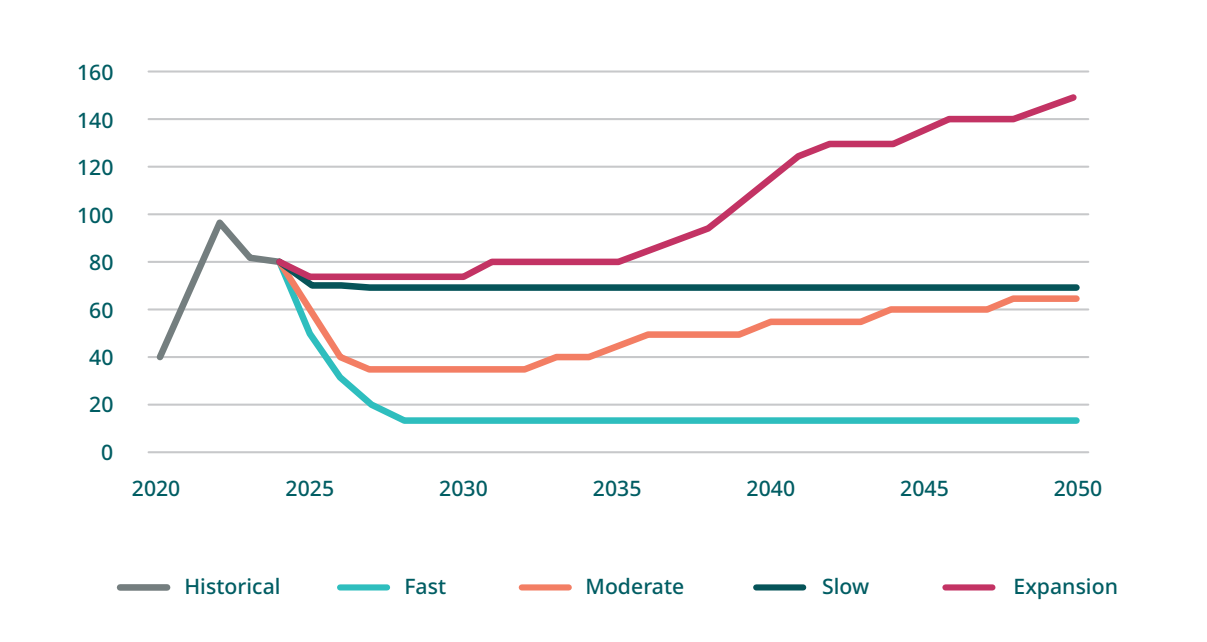
Various projections of government revenue from the Lake Albert project, EACOP and the planned refinery have been published over the years. For example, in 2021, the World Bank estimated total government revenue from these three projects would average around $1.3 billion a year with an oil price of $60 per barrel.[11] In 2022, the government published estimates of total revenue of $2.8 billion a year, though without specifying its assumptions.[12]

As these contrasting figures highlight, oil revenue projections always suffer from considerable uncertainty.[13] The global energy transition adds new layers of uncertainty by introducing long-term structural shifts in demand patterns. Various entities see oil demand peaking this decade. They include the International Energy Agency (IEA) in its Stated Policies Scenario, in which governments only implement policies already in place or currently being developed.[14] A key driver of these projections is the expectation that oil demand in China will peak in the next few years.[15] Several major oil and gas companies, such as bp also expect demand to peak in the next few years.[16]

However, the pace of the transition—including the slope on the other side of the peak—remains uncertain. We set out four possible energy transition scenarios below:

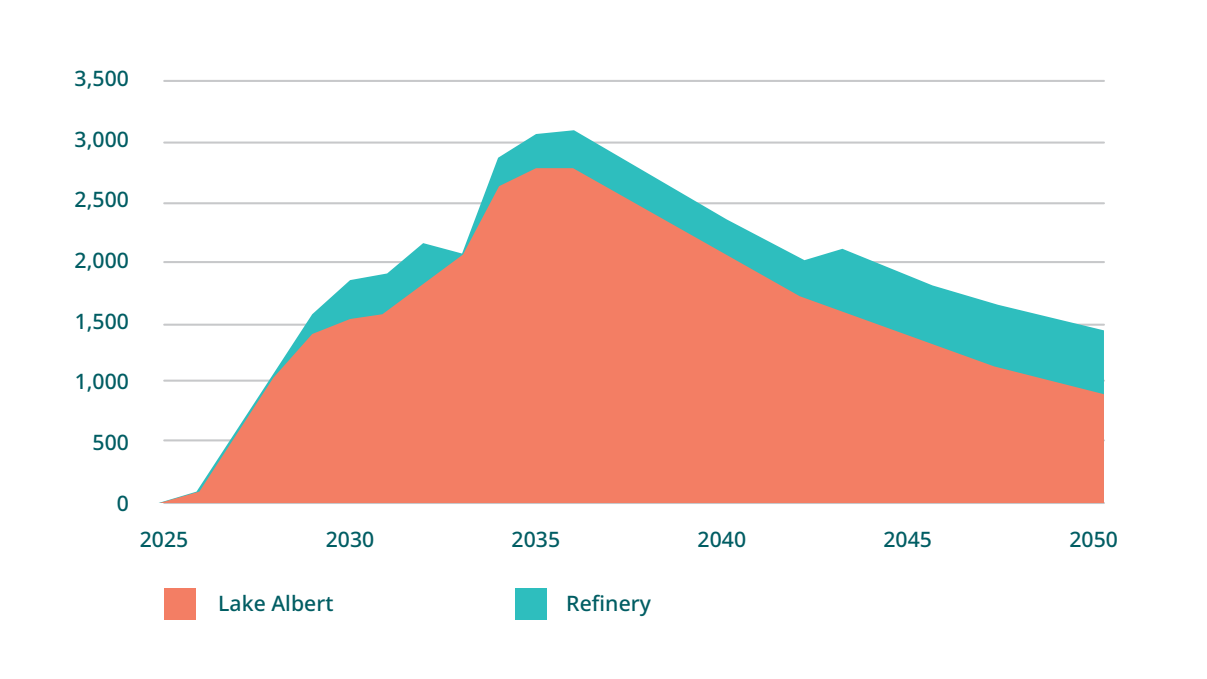
- **Fast transition.** This is based on the oil and gas demand estimated in the IEA Net Zero Emissions by 2050 Scenario, which maps out a transition pathway that would limit global warming to 1.5 degrees Celsius. This assumes large-scale negative emissions enabled by technologies such as carbon capture and storage. Rystad Energy imposes this demand on its forecasted future oil and gas supply curve to calculate prices and project cashflows, government revenues and other results. The average price in this scenario is $17 per barrel between 2026 and 2050.[17]
- **Moderate transition.** This is based on the IEA's Announced Pledges Scenario, which assumes the full and timely implementation of national energy and climate goals, including net zero emissions targets. The average price in this scenario is $50 per barrel between 2026 and 2050.
- **Slow transition.** This is Rystad Energy's baseline scenario. It is similar to the IEA's Stated Policies Scenario, which assumes governments follow their current set of energy and climate policies. The average price in this scenario is $70 per barrel between 2026 and 2050.
- **Expansion.** This is based on the Organization of Petroleum Exporting Countries scenario which assumes a continued expansion in demand up to 2050. The average price in this scenario is $104 per barrel between 2026 and 2050.

Figure 1. Oil price scenarios in Rystad Energy's database (2025 USD per barrel) [18]



Current modeling by Rystad Energy and NRGI suggests that Uganda's government revenues from oil may average around $1.9 billion a year between 2026 and 2050 with a slow energy transition, as set out in Figure 2. Rystad estimates government revenue from the Lake Albert project and EACOP of around $1.6 billion a year between 2026 and 2050.[19] Rystad does not provide government revenue projections for the refinery, but NRGI modeling suggests government revenues of around $300 million a year in the slow transition scenario.[20]

Figure 2. Uganda's government oil revenues in a slow energy transition scenario (USD millions, 2025)

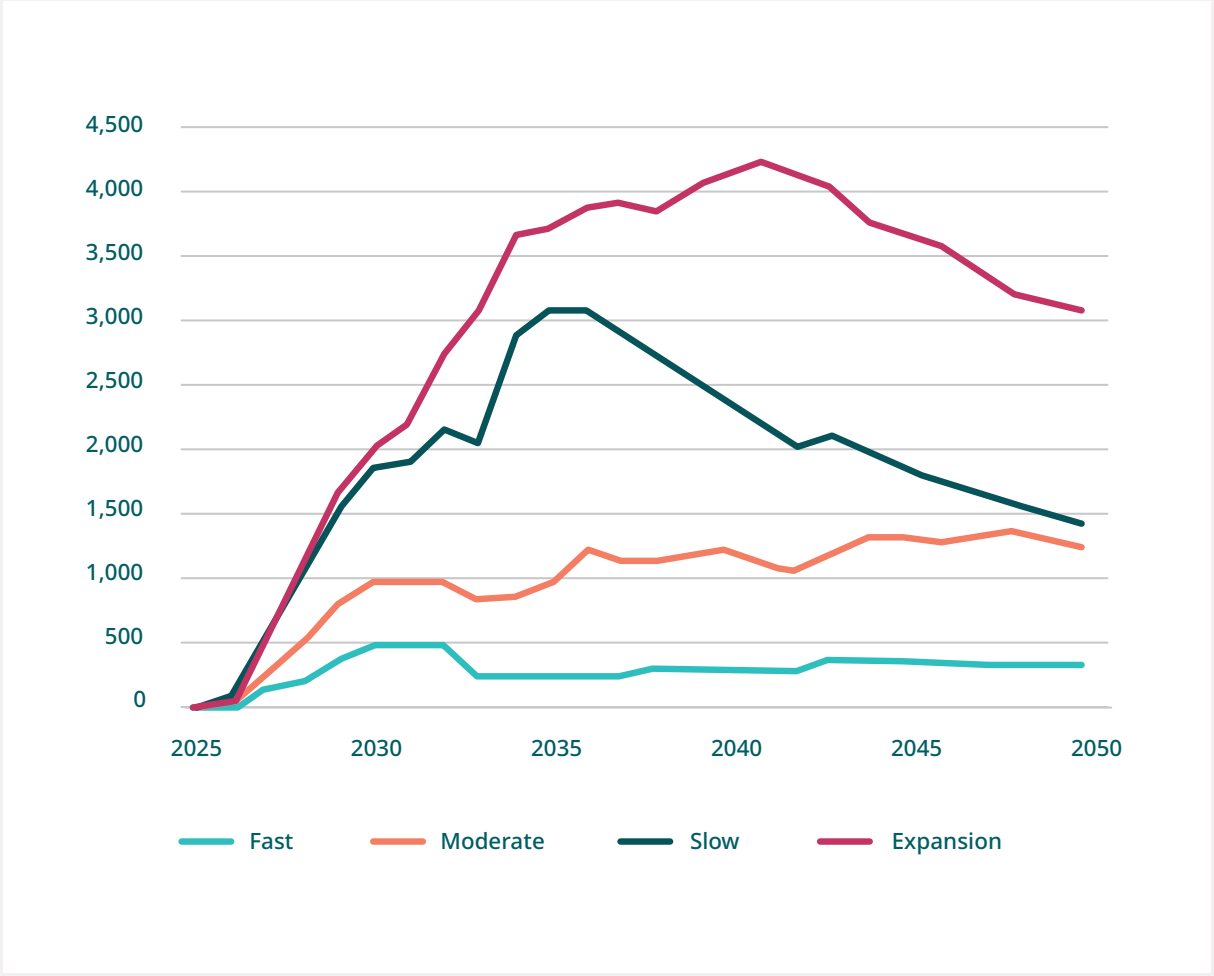


Uganda's public finances would see considerable improvement with these revenues. An average of $1.9 billion a year could account for around 1.7 percent of non-oil GDP and 9 percent of total government revenue, on average, between 2026 and 2050.[21] To put this amount of revenue further into perspective, if the government received it this year, it could cover more than the entire health budget or nearly two-thirds of the interest payments it expects to make on public debt in 2025/26.[22] However, Rystad and NRGI modeling projects government revenues averaging only $1 billion a year in a moderate energy transition scenario. The boost to Uganda's public finances would therefore be considerably smaller.

Oil revenues would account for only around 0.8 percent of non-oil GDP and 5 percent of total government revenue between 2026 and 2050.[23]

The Lake Albert project may not be Uganda's only oil prospect. Companies appear to be advancing exploration plans in several other blocks, such as Ngassa, Kanywataba and Turaco.[24] UNOC has commenced exploration of the Kasurabani block.[25] The government is also conducting preliminary surveys in the Moroto-Kadam and Kyoga basins.[26] However, until there are discoveries, it is not possible to assess their viability across different scenarios, or the government revenue they may generate.

Figure 3. Uganda's government oil revenues across scenarios (USD millions, 2025)



Immediate implications of revenue uncertainty

Key recommendations:

- Avoid increasing borrowing in expectation of large oil revenues

Given the uncertain outlook, the government should be particularly wary of increasing borrowing and spending in expectation of large revenues. Uganda is already aware of the consequences of such borrowing. The government experienced public pressure to increase spending following the discovery of oil in 2006. It borrowed to meet these expectations, believing that the debt could be repaid quickly and easily with oil revenues. However, estimates of when oil production and hence revenues will start have been continuously over-optimistic.[27] Delays to first oil meant that this borrowing created greater challenges than anticipated and contributed to the significant increase in debt levels in recent years. The ministry of finance expects debt to have reached 51.3 percent of GDP by the end of 2024/2025—in line with the ceiling set out in the CFR.[28]

As production nears—and even once it has started—the government must avoid repeating these mistakes. While Uganda's debt level remains below that of many African countries, and official assessments suggest that it is still sustainable, it requires close attention.[29] Debt servicing demands are a particular concern. The ministry of finance expects debt service payments to have amounted to around a third of total government revenue in 2024/25.[30]

The government should show even greater caution towards resource-backed loans.[31] Section 74 of the PFMA prohibits the government from taking such loans and, based on available information, it does not appear to have taken any to date.[32] However, other countries have had similar provisions in their legal framework initially and have subsequently amended them.[33] As production nears, the government could be tempted to explore taking resource-backed loans, given that they can enable the borrowing of large amounts without directly adding to the debt servicing demands on the budget. However, as other oil-producing countries have experienced, these loans come with significant risks, such as greater opacity and the deterrence of traditional lenders.[34] The African Development Bank has cautioned against countries using resource-backed loans.[35]

Uganda's revenue management framework

The government must account for several additional challenges in its management of Uganda's oil revenue:

Development needs. Uganda has considerable development needs. Per capita income is $1,153.[36] The country has a large infrastructure gap.[37] Public spending on education and health is below the sub-Saharan African average.[38] Oil revenues can help meet these needs, particularly given the scarcity of alternative financing sources and existing high debt-servicing costs.

Spending effectiveness. Government management of public investments has improved in recent years, but capacity challenges remain. The government persistently fails to fully execute its capital budget and achieves worse outcomes from what it does spend than many countries.[39] Political economy factors may worsen spending effectiveness.

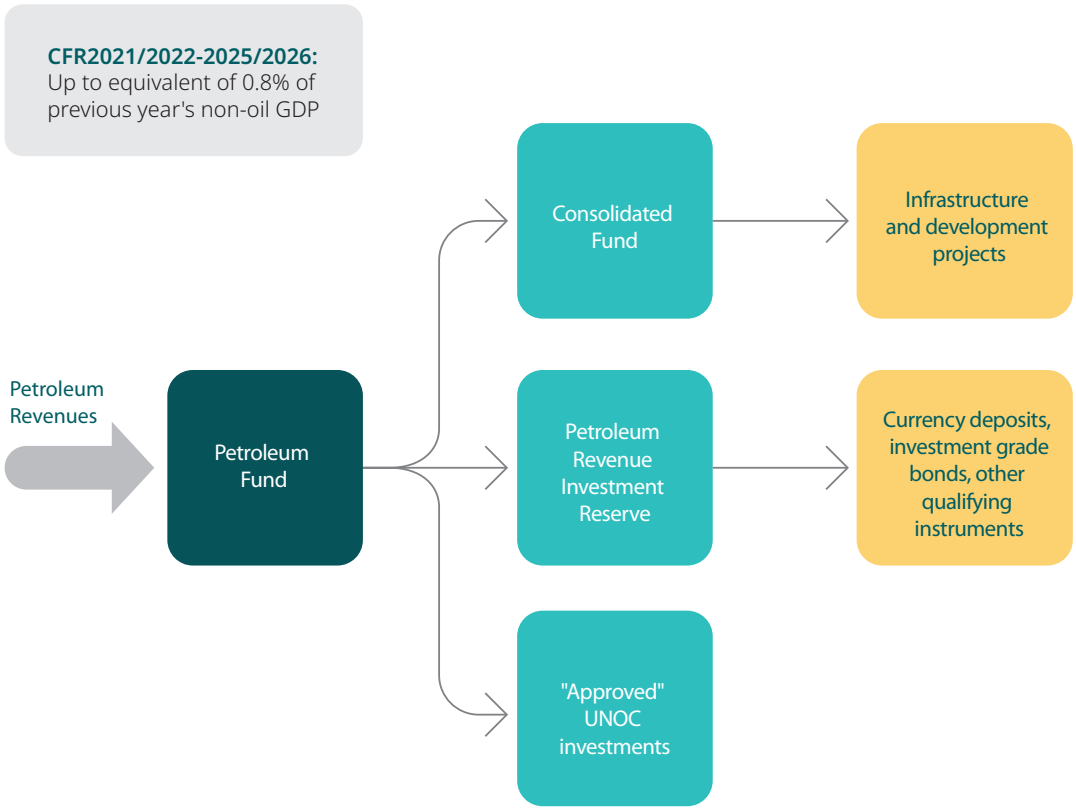
Absorptive capacity. Oil-related flows of money into the economy can cause exchange rate appreciation and inflation, which damage other sectors (so-called "Dutch disease"). Government spending can exacerbate these impacts if it exceeds the economy's absorptive capacity. The IMF has assessed the risk of Dutch disease for Uganda as non-negligible,[40] though the size of Uganda's oil sector means that it is unlikely to be significant.

Exhaustibility. Uganda may only produce oil for 25 years or less. This increases the importance of the government ensuring long-term sustainability and intergenerational equity. Such goals can be achieved in three ways: public investment that improves Uganda's long-term development trajectory, saving revenue into a fund, and paying down debt to free up future revenue.

Volatility and uncertainty. Uganda's revenue outlook is highly uncertain, as noted above. The energy transition is also likely to increase the inherent volatility of oil revenues from year to year.[41] With oil possibly contributing no more than 9 percent of government revenue on average, this volatility should cause fewer challenges than for larger producers, such as Nigeria. However, volatility has still impacted the budget of countries with a similar magnitude of revenues, such as Cameroon and Chad.[42]

Figure 4 (on the next page) sets out the key provisions in the PFMA and CFR to address these challenges. The Uganda Revenue Authority and UNOC will deposit petroleum revenues into the Petroleum Fund. These revenues will then be transferred either to the Consolidated Fund, PRIR or UNOC, according to the rule set out in the CFR. Parliament will allocate Consolidated Fund transfers to infrastructure and development projects through the annual budget process. The Bank of Uganda will invest transfers to the PRIR to either enable future stabilization of the budget or save for future generations. We also include the East African Community (EAC) convergence criteria relating to fiscal policy in Figure 4.[43] While neither the PFMA nor CFR reference these criteria, they are international commitments and should therefore still be informing government decision-making.

Figure 4. Uganda's oil revenue management framework



Wider fiscal rules in CFR 2021/2022-2025/2026:

- Nominal public debt reduces to below 50% of GDP by 2025/2026
- Domestic debt interest payments reduce to 12.5% of total revenues (excluding grants) by 2025/2026
- Nominal publicly guaranteed debt maintained below 5% of GDP
- Overall fiscal deficit (including grants) reduces to 3% of non-oil GDP by 2025/2026
- Ratio of non-oil revenue to GDP grows by at least 0.5 percentage points a year
- Growth rate in recurrent spending as a percentage of GDP shall not exceed growth rate of non-oil revenue as a percentage of GDP.

EAC fiscal convergence criteria:

- Overall fiscal deficit of no more than 3% of GDP
- Gross public debt of no more than 50% of GDP in net present value terms.

Reforms to the revenue management framework

The Ministry of Finance, Planning and Economic Development (MoFPED) could consider several changes to the revenue management framework, regardless of the size of Uganda's oil revenues. By refining the PFMA in the areas set out below, Uganda will improve its chances of fully benefiting from the revenues it does receive. MoFPED will need to make amendments to the PFMA in some of these areas, while regulations may suffice in others:

- Revenues deposited in the Petroleum Fund
- Spending of petroleum revenues
- Use of PRIR funds
- UNOC financing
- Petroleum fund balances
- Subnational sharing of royalty revenue
- Compliance with the revenue management framework.

Revenues deposited in the Petroleum Fund

Key recommendations:

- Define "petroleum operations" in the PFMA or Income Tax Act, and include EACOP and the refinery in this definition.
- Require any dividends received by UNOC to be deposited in the Petroleum Fund.

Uganda's government could clarify whether revenues from EACOP and the refinery are to be deposited in the Petroleum Fund, and therefore whether the revenue management framework applies to them. The description of oil revenues in the Oil and Gas Revenue Management Policy refers to operations along the value chain, and a World Bank report suggests this is the expectation.[44] However, the PFMA lacks clarity.

Section 3 currently defines "petroleum revenues" as: "tax paid under the Income Tax Act on income derived from *petroleum operations*, Government share of production, signature bonus, surface rentals, royalties, proceeds from the sale of Government share of production, *any dividends due to Government*, proceeds from the sale of Government's commercial interests and any other duties or fees payable to the Government from contract revenues under a petroleum agreement, but excludes cash calls appropriated by Parliament from time to time, cost oil attributable to State participation and the tariff payable under the law relating to the East African Crude Oil Pipeline Project" (emphasis added).

"Petroleum operations" are not defined in any of Uganda's laws. It is therefore unclear whether the government will treat EACOP and the refinery as such and, as a result, deposit tax revenues from them into the Petroleum Fund.

The PFMA is also unclear on whether dividends received by UNOC from its participation in EACOP or the refinery are to be deposited in the Petroleum Fund. UNOC is participating in the Lake Albert project through unincorporated joint ventures and will receive a share of production from this arrangement. The proceeds from the sale of this production share will be deposited in the Petroleum Fund (excluding the portion required to meet UNOC's financial obligations arising from its participation in upstream joint ventures and EACOP). In contrast, UNOC will participate in EACOP and the refinery through incorporated joint ventures. The company will therefore receive a share of any dividends that are paid by the EACOP and refinery project companies. Section 30 requires any dividends "due

to Government" to be deposited in the Petroleum Fund. However, it is unclear whether UNOC is currently required to transfer any dividends it receives—particularly given the government and UNOC are yet to agree a dividend policy.

The government should consider following countries such as Tanzania and applying the revenue management framework to all government revenue from the sector.[45] The operation of EACOP and the refinery are closely tied to Uganda's oil reserves, and therefore the revenues they generate are likely to be similarly finite. Revenues from the refinery could be non-negligible and potentially volatile. The government should therefore manage them carefully.

To guarantee that tax revenues from EACOP and refinery revenues are deposited in the Petroleum Fund, the government should ensure that the PFMA, the regulatory framework or the Income Tax Act provides a definition of "petroleum operations" that includes EACOP and the refinery. The government could also adjust the definition of petroleum revenues to include any dividends received by UNOC.

Previous disputes over deposits into the Petroleum Fund highlight the importance of clarity. For example, the government determined that capital gains taxes from the transfer of oil assets, such as between Tullow Oil and Heritage Oil and Gas Limited (companies that were previously involved in the Ugandan sector), were not petroleum revenues and therefore it did not deposit them in the fund.[46]

Spending of petroleum revenues

Key recommendations:

- Make explicit in the PFMA the link between spending of oil revenues and achieving key development objectives, for which economic diversification will be key.
- Use the non-oil primary balance as the main fiscal anchor in future CFRs, and stipulate in the PFMA that this balance also includes borrowing by state-owned enterprises (SOEs).
- Consider whether the recurrent expenditure limit in the current CFR ensures sufficient development expenditure, and include the limit in the PFMA.

Spending on development objectives

Uganda's considerable development needs mean that using oil revenues to scale up public investment in physical and human capital should bring high returns for both current and future generations. However, as discussed above, when determining spending levels, the government must rigorously assess these returns in relation to saving in a fund and/or paying down debt. It must also account for its capacity to spend effectively, and for the economy's absorptive capacity. The government has presumably made this assessment when setting the current CFR rule of spending oil revenues up to the equivalent of 0.8 percent of the previous year's non-oil GDP.

However, to ensure that oil revenues are spent as intended, the government could adjust the PFMA or use regulations. Section 59(3) of the act requires oil revenues to be spent only on "infrastructure and development projects." Although it prohibits these revenues from financing recurrent expenditure, there is still a risk that too broad a definition will be applied to development projects.

The PFMA or accompanying regulations could make explicit the link between spending of oil revenues and achieving key development objectives. For example, spending could be restricted to projects specified in the National Development Plan or Uganda Vision 2040, or to capital expenditure detailed in the Medium-Term Expenditure Framework. The PFMA or regulations could also clarify that this spending should be on projects unrelated to the oil sector. The global energy transition makes dependence on the oil sector particularly risky, and therefore a diversified economy particularly important.

Recurrent expenditure limit

The PFMA rule on how oil revenues should be spent does not guarantee that the government will spend more on infrastructure and development projects overall. Revenues are fungible. In countries such as Ghana, the earmarking of oil revenues has not been complemented with rules for the wider budget. Oil revenues directed toward capital expenditure have therefore simply resulted in the withdrawal of non-oil revenues from this area, and increased recurrent expenditure.[47]

This risk is apparent in Uganda. Recurrent expenditure has been higher than capital expenditure in all but two of the last 10 years, and its share has increased further in recent years. As Figure 5 (on the next page) shows, this is the case even after accounting for the higher interest payments resulting from global financing conditions. As part of this, capital expenditure has tended to be lower than budgeted, and recurrent expenditure has been higher, consuming any unexpected additional revenues.[48] It is likely that this trend partly highlights the government's constrained capacity in public investment management, but also political choices.

The government introduced a rule in the current CFR to try and address this problem. Rule 2.a. requires the growth rate in recurrent expenditure as a percentage of GDP not to exceed the growth of non-oil revenue as a percentage of GDP.

However, this rule appears insufficient to guarantee a better balance between capital and recurrent expenditure, particularly if oil revenues are lower than expected. Non-oil revenue and recurrent expenditure were a similar size in 2023/2024. Therefore, if the government uses all the permitted allowance for recurrent expenditure, capital expenditure will essentially be financed by oil revenues, grants and debt. In this scenario, recurrent expenditure will be around 15.4 percent of non-oil GDP in 2028/2029 (the last year that IMF projections currently cover), compared to 13.5 percent in 2023/2024. In contrast, capital expenditure will be 4.4 percent of non-oil GDP in 2028/2029: less than the 5.2 percent of 2023/2024.[49]

The government could consider other types of rule. Peru, for example, requires recurrent spending growth not to exceed average GDP growth over the past 20 years, minus 1.2 percentage points.[50] Uganda could adjust its current rule to limit recurrent expenditure to less than the growth of non-oil revenue. However, any recurrent expenditure limit will need to account for development needs that are met with recurrent expenditure, as well as the recurrent expenditure required for effective utilization of capital projects.

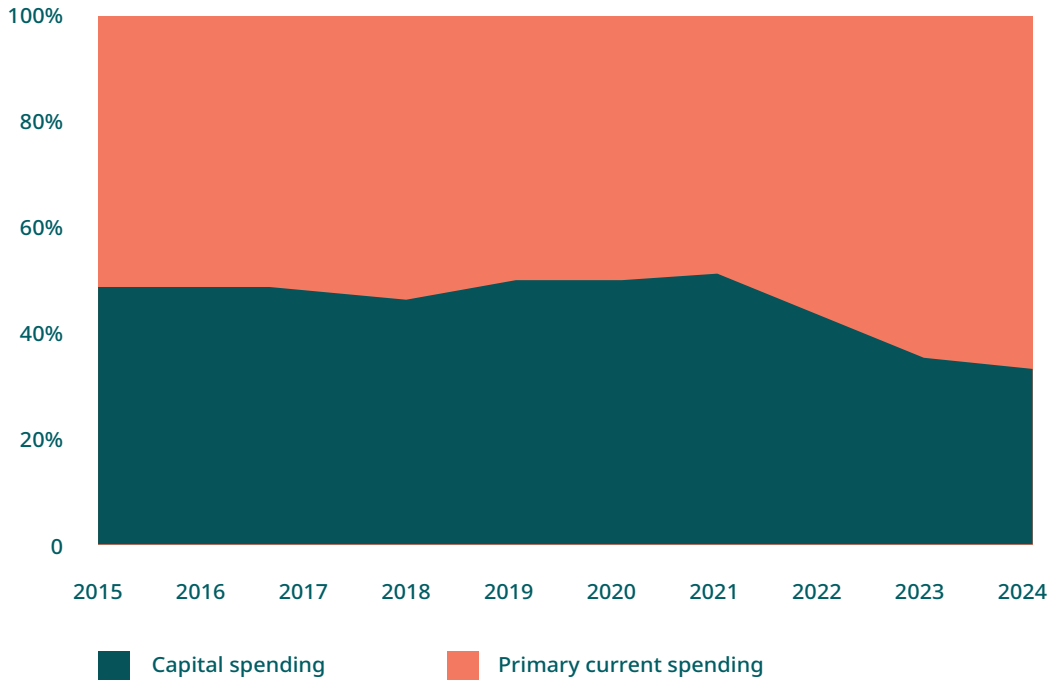
Irrespective of the merits of the current rule in the CFR, the production of new CFRs every five years means that there is a risk that the government will not maintain a recurrent expenditure rule in the longer term. The PFMA could provide some limit on the extent to which CFRs can change, as discussed further below. However, incorporating a recurrent expenditure rule in the PFMA would still provide more certainty that the government maintains this target.

Non-oil primary balance as the fiscal anchor

The CFR limits overall spending through its annual ceiling on the fiscal deficit. This ceiling by the end of 2025/2026 is 3 percent of non-oil GDP. Such an anchor for the wider public finances helps ensure that the benefits of a disciplined approach to managing oil revenues are not overwhelmed by mismanagement of the broader budget. However, the current anchor is different to that envisaged by the Oil and Gas Revenue Management Policy and section 4(2) of the PFMA. These documents provide for the rule to exclude oil revenues (not just oil GDP).

Unlinking the fiscal deficit from volatile oil revenues would reduce the likelihood of spending levels being pro-cyclical. This should help Uganda avoid repeating the experience of countries such as Venezuela, with large spending increases when oil revenues are high and severe spending cuts when oil revenues fall.[51,52] The International Monetary Fund (IMF) recommends that Uganda also removes interest payments from this rule, to target the primary balance rather than the fiscal balance.[53]

Figure 5. Uganda's capital expenditure versus primary current expenditure[54]



Given the various external factors that can impact interest payments, the government has more control over the primary balance. It could therefore plan to use a non-oil primary balance as the fiscal anchor in future CFRs.

The government could further strengthen this rule by preventing it from being circumvented by off-budget borrowing. For example, the Mongolia Development Bank borrowed an additional 8 percent of GDP using a state guarantee that did not add to the fiscal deficit—the target of the fiscal rule—until many years later, when the government had to step in to repay the loan.[55] Mexico's fiscal balance rule applies to central government, decentralized agencies and public enterprises, including the national oil company Petróleos Mexicanos (Pemex).[56] Uganda's CFR currently limits publicly guaranteed debt to below 5 percent of GDP. This will be important for managing potential borrowing by UNOC and other SOEs. However, including SOE borrowing in the main fiscal anchor will ensure the primary balance rule provides a more coherent and reliable indicator of the overall fiscal position.

Whichever fiscal anchor the government uses, it will need to calibrate the rule with that governing the spending of oil revenues. This calibration should ensure that the government is not transferring oil revenue to the PRIR and then borrowing at higher rates than the debt it is paying down, or the return it is generating from the PRIR funds.

Use of PRIR funds

Key recommendations:

- Clearly articulate the PRIR objective(s) in the PFMA, and align the rest of the act with this objective.
- Use PRIR funds to pay down high-interest debt.
- Use at least some of any remaining PRIR funds to build a stabilization buffer, but stipulate in the PFMA that it can only be used for significant shocks.
- Include rules in the PFMA on what can constitute a qualifying instrument for PRIR investments, and stipulate that investments must be in foreign non-oil assets only.

Given the diminishing returns to public investment because of challenges with the effectiveness of government spending and the economy's absorptive capacity, the government envisages some oil revenue will be transferred to the PRIR. Uganda's revenue management framework is currently unclear on whether PRIR funds will be used for stabilization, future generations or both.

Section 63(1) of the PFMA provides for PRIR funds to be invested in accordance with an investment policy that will be issued by the minister of finance, on the advice of the PRIR's Investment Advisory Committee. This section and subsequent sections of the act provide some rules on what this policy should include. However, the PFMA would benefit from revision to clearly articulate the PRIR objective(s) to guide this policy, and to provide additional rules for the use of PRIR funds.

Paying down high-interest debt

The PFMA does not mention using PRIR funds to pay down debt. However, after scaling up public investment, paying down debt with high interest rates could be the second most beneficial use of oil revenues. A reduction in high-interest debt would support intergenerational equity and provide a buffer against volatility.

Over the past decade or so, governments have typically saved resource revenues in a sovereign wealth fund to benefit future generations and protect against volatility. However, some funds have been too small to generate large returns. Their small size makes it difficult to have a diverse portfolio that includes higher-risk, higher-return assets, and to develop the capacity to invest in them effectively. Some countries have therefore generated lower returns on their savings than they have been paying in borrowing costs, leaving them poorer as a result.[57] For example, over the past decade, Ghana has earned an average return of around 1 percent a year from its stabilization fund and around 3 percent a year from its fund for future generations.[58] During the same period, the country has been borrowing from international markets, paying interest of 6 to 11 percent on its Eurobond issuances.

Uganda's uncertain revenue outlook makes estimating the potential size of its PRIR deposits particularly challenging. However, they are also likely to be relatively modest and could therefore generate relatively modest returns. The government may find itself saving, while paying higher interest on some of its debt. In recent years, it has borrowed an increasing amount of external debt from commercial creditors. It is also borrowing more from domestic sources for longer periods, with an average interest rate in 2023/2024 of 14.4 percent.[59]

Paying down this high-interest debt could therefore be more beneficial for future generations than saving in a fund. It could also help protect the budget against oil revenue volatility and other shocks.

It would mean the government has more space for additional borrowing during challenging periods, without risking debt becoming unsustainable. The government is aware of the importance of reducing borrowing costs. For example, it intends to reduce the use of variable rate loans and has committed to not issuing Eurobonds.[60] It could use some of its oil revenues to support this goal.

Insuring against shocks

After scaling up public investment and paying down high-interest debt, the government could consider using at least some of any oil revenue remaining to build up a stabilization buffer. As noted above, the uncertain revenue outlook makes it harder to estimate the potential size of any fund for long-term savings. It is therefore also harder to determine whether such a fund would be advisable. At the same time, the energy transition is likely to increase oil revenue volatility.[61] Declining markets are difficult to predict, and the oil market faces potential disruption from climate policy, geopolitics and extreme weather. Prices could fluctuate more severely as countries and companies respond to the transition.[62]

The government can reduce the impact of oil revenue volatility on the budget by using the non-oil primary balance as the fiscal anchor. However, the extent to which oil revenue can cover the non-oil primary deficit is still at risk of volatility. In times of low oil revenues, Uganda will have to cover more of this deficit through borrowing, or cut back spending. A stabilization buffer could therefore help the government fill any oil revenue shortfall.

However, oil is only one source of potential volatility for the public finances. The limited diversification of Uganda's economy means that it is reasonably reliant on a small number of other volatile sectors, such as gold and coffee. Recent years have highlighted the risk of large swings in interest rates. The government could therefore also use the stabilization buffer to insure against other shocks. For example, it could be used to avoid taking on debt at times of high interest rates.[63]

If the government establishes a stabilization buffer, the PFMA should specify that the buffer can only be used for significant shocks, and should provide a definition of such shocks. Some countries, such as Tanzania, allow the government to tap the stabilization fund in response to even minor fluctuations in revenues.[64] This approach risks depleting the fund even when the threat of disruption to the budget or economy is limited.

Clarifying the saving objective(s)

The PRIR objective(s) will be a key determinant of the optimal instruments for investing PRIR funds. These objectives will also determine when savings and investment returns can be accessed and withdrawn. Stabilization investments should focus on low-risk, high-liquidity instruments, such as bonds and money market funds, which can be available for cashing in at short notice. Savings for future generations have much longer investment horizons and involve riskier, less liquid assets such as equities. For example, the Alabama Trust Fund lost more than 17 percent of its value in 2022, before recovering 11 percent in 2023. Restrictions on access to long-term savings should also be tighter, with the government ideally prohibited from accessing them until oil reserves have been depleted.

However, there are inconsistencies between Uganda's revenue management policy, the PFMA and the CFR regarding whether PRIR funds will be used for stabilization, future generations or both. The Oil and Gas Revenue Management Policy states that the PRIR will be a fund for future generations. Yet the "qualifying instruments" that section 63(2) of the PFMA lists are more appropriate for stabilization purposes. Conversely, the Charter for Fiscal Responsibility suggests the PRIR will have both objectives even within the first year of operation. In other countries, such ambiguity has resulted in funds failing to achieve their objectives.[65] The government could therefore consider revising the PFMA so that it clearly articulates the PRIR objective, and then aligning the rest of the act with this objective.

Investment rules

Risky instruments can generate high returns and can therefore be a key component of a private investor's portfolio. However, governments should take a relatively conservative approach with public funds, including long-term savings. This is particularly the case for funds that are too small to be sufficiently diversified to mitigate this risk.

Sections 64(2)(c) and 64(6) of the PFMA reference the need to avoid undue risk. In its description of qualifying instruments, section 63(2) also includes some risk management measures: instruments should be in an internationally convertible currency, generate a fixed return and be investment grade. However, section 63(2) also provides for the minister of finance to prescribe "any other qualifying instrument," but does not specify whether these instruments are required to have certain characteristics. It is therefore possible that they will be excessively risky, such as real estate, unlisted companies, commodities and derivatives (section 64(6) implies that the latter are permissible with certain conditions).

The PFMA could set out some general rules defining qualifying instruments—for example, requiring that they:

- have a minimum credit rating
- are publicly traded (i.e. stocks and bonds traded on public exchanges)[66]
- are in an internationally convertible currency
- are not a derivative.

Derivatives, such as options, futures, forwards and swaps, can be used either for hedging or speculative purposes. Using derivatives for speculation is excessively risky and the government should consider prohibiting it. However, even hedging should be approached with caution. International experience shows that the funds with the highest long-run returns are those that do not purchase such assets.

The PFMA could also specify that the PRIR can be invested in foreign assets only. The act is currently silent on whether investment in foreign or domestic assets, or both, is permitted.

Investing funds domestically, either in physical or financial assets, can be appealing in countries with limited fiscal space and the potential for significant returns on domestic investment. However, Uganda can already make domestic investments through the budget and the Uganda Development Bank, which provides debt and equity financing. Allowing oil revenues to also be invested domestically through the PRIR is risky.

Making domestic investments through the PRIR could undermine fiscal and macroeconomic stability, and result in disappointing returns, for several reasons. First, by tying PRIR returns to the performance of the domestic economy, such investment limits the PRIR's capacity to act as insurance against domestic economic shocks. Second, because this investment would not be made through the budget, the government would find it more difficult to ensure public investment is consistent with the absorptive capacity of the economy. Third, because such investment would bypass the budget process, parliament would have limited oversight to ensure that the funds are being used in the interests of Uganda. For example, the Libya Investment Authority invested in assets owned by close personal friends of fund managers.[67] Fourth, different expertise, human resources and investment guidelines are needed for domestic investments compared to investments in foreign assets for stabilization and future generations. Managing the two portfolios would risk undermining the goals of each. Norway, Russia and Kazakhstan have a sovereign wealth fund for domestic investment and a sovereign wealth fund for investment in foreign assets, but they are managed by two different institutions. Building the required capacity for domestic investments would be an unnecessary cost, given that the Uganda Development Bank already has this capacity.

If more public investment in the Ugandan economy would be beneficial and not cause the economy to overheat, the government should avoid making this investment through the PRIR. Instead, it could adjust the fiscal rule to enable more money in the Petroleum Fund to be transferred to the budget, and to the Uganda Development Bank in turn, rather than to the PRIR.[68]

The PFMA or regulations could also specify that the PRIR cannot be invested in assets linked to fossil fuels. Around one-fifth of sovereign wealth funds have lowered their exposure to high-carbon sectors. For example, the Qatar Investment Authority will not invest further in fossil fuels.[69] This is partly on environmental grounds. However, it is also because of profitability risks and, for oil-dependent countries, to diversify their future sources of income.

Finally, it is encouraging that Section 63 suggests that the government plans to include ethical investment criteria in the investment policy. This is increasingly common for sovereign wealth funds. For example, Norway's government pension fund is prohibited from investing in companies that develop or produce weapons, coal, tobacco or cannabis, or are responsible for serious human rights violations or environmental damage.[70]

PRIR institutional framework

The government has already established key parts of the institutional framework that will oversee the PRIR. However, reforms to the PFMA or regulations would be beneficial for shaping future decision-making.

The Bank of Uganda is responsible for operational management of the PRIR, and a Petroleum Fund Department was established in 2015. Section 64(7) provides for the Bank to appoint an external investment manager to manage PRIR investments. This is a sensible approach. Securing the best return for a given risk profile requires specific expertise, and potential conflict of interest issues arise if PRIR investments are managed internally.

However, selection of a suitable external manager will be crucial. Section 64(9) defines some required criteria for the manager, but they are limited. There is also no requirement for publicly reporting the reasons for selecting a specific manager. As highlighted in the Santiago Principles on sovereign wealth fund management, effective oversight of this decision is important.[71] The PFMA or regulations could provide more detailed criteria that the external manager must meet, such as the necessary professional qualifications, and require publication of a report that specifies the reasons for selecting a specific manager.

Section 66 provides for an Investment Advisory Committee that will advise the minister of finance on the investment of PRIR funds. The government established this committee in 2019. As stated by section 67, the minister appoints committee members and will also be responsible for determining whether members can be reappointed for a second term. To ensure that members feel able to provide independent, impartial advice, it may be beneficial to limit this discretionary power of the minister. Section 67(8) requires the names of committee members to be published on appointment. The PFMA could stipulate that the minister is also required to publish the reasons for appointing a member, replacing a member before the end of their term and for not reappointing a member for a second term.

UNOC financing

Key recommendations:

- Clarify in the PFMA or regulations how UNOC investments from the Petroleum Fund will be sequenced in relation to allocations to the Consolidated Fund and PRIR.
- Require UNOC to present and publicly disclose its investment plans across a range of scenarios when seeking parliamentary approval for them.
- Stipulate in the PFMA or other legislation that any additional UNOC financing needs will be met by a multi-year budget allocation.

To date, UNOC has been largely financed through Uganda's budget. However, with parliamentary approval, the government has financed the company's largest investment so far—its contribution of around $300 million to EACOP's costs—primarily through borrowing.[72] UNOC is also able to retain revenue from several relatively minor streams, such as profit from trading petroleum products.[73]

The PFMA provides some indication of how UNOC will be financed going forwards. The act was initially silent on the financing of UNOC, but following amendments in 2021, Section 57(5) provides for UNOC to retain a portion of sales revenue from its production share to meet financial obligations from its upstream joint ventures and EACOP. Section 58 now enables money in the Petroleum Fund to be used for UNOC investments approved by the board of UNOC and Uganda's national cabinet. Parliament is required to approve the amount of sales revenue that UNOC retains through section 57, and the investments to be financed from the Petroleum Fund envisaged in section 58, given that these withdrawals must be provided in an Appropriation Act.

However, several aspects of UNOC's financing remain unclear. Neither the PFMA nor CFR indicate how UNOC investments from the Petroleum Fund will be prioritized or sequenced in relation to allocations to the Consolidated Fund and PRIR. The current CFR implies that any revenues remaining after the transfer to the Consolidated Fund will be transferred to the PRIR. However, the amendment to section 58 of the PFMA means this will not necessarily be the case. Similarly, given that the current CFR limit on the Consolidated Fund transfer is a maximum, rather than a required, amount, it is possible that revenues could be allocated to UNOC funding rather than the Consolidated Fund. The PFMA or regulations could clarify the interaction between these three uses of revenues in the Petroleum Fund.

With other legislation not providing additional financing rules, it also remains unclear how further UNOC costs—such as any other investments and its day-to-day operating costs—will be financed. Some financing is likely to be secured through borrowing. As with UNOC's stake in EACOP, the government is expected to borrow the potential $1.8 billion required to finance the company's stake in the planned refinery.[74] UNOC may also seek to retain any dividends that it earns from EACOP and the refinery, given the lack of clarity on whether it must deposit them in the Petroleum Fund, as noted above.

As NRGI has previously set out, national oil companies (NOCs) have traditionally had a range of funding models that the government could consider for UNOC.[75] These models would provide the government with differing levels of control over UNOC's financing. However, the global energy transition has increased the riskiness of public investment in the oil sector.[76] For example, even if UNOC's planned exploration results in the discovery of more oil, the viability of developing it will depend on the break-even price and pace of the transition. Similarly, UNOC's participation in the planned refinery could cost an additional $370 million in present-value terms if the transition is fast rather than slow, via a reduction in the market value of the refined products it sells.[77] Borrowing to fund these investments still puts public money at risk. If UNOC operations do not generate the expected returns, the government may need to divert money from the national budget to repay UNOC's loans. Three recent examples of governments bailing out NOCs are Mexico's Pemex, Venezuela's PDVSA and Kazakhstan's KMG.[78]

The government and parliament should therefore have a high level of control over UNOC's financing. In addition to assessing the opportunity cost of UNOC's expenditures to financing for public investment in other sectors, they could evaluate UNOC investment plans across a wide range of scenarios, including with respect to profitability under various energy transition scenarios, and the affordability of worst-case scenarios for the public finances.[79] Several NOCs make investment decisions based on long-term price scenarios. For example, Brazil's Petrobras assesses whether a project will be profitable with a long-term price of

$35 per barrel before proceeding with it.[80] The government could consider requiring UNOC to explicitly present the scenarios it uses to parliament, and publicly disclose them, when seeking approval for investments financed through the Petroleum Fund or borrowing. We discuss further the information that it would be beneficial for UNOC to publicly disclose in a subsequent section.

It would be advisable for parliament also to have control over the financing of UNOC's other needs, such as its day-to-day operations. Parliament could therefore continue the practice of providing UNOC with a budget allocation to meet these needs. As noted above, dividends from UNOC's stake in EACOP and the refinery would be non-negligible in some scenarios. It would therefore be advisable for UNOC to transfer them to the Petroleum Fund, rather than retain and spend them.

The government could also consider explicitly prohibiting UNOC from using funds differently from their intended purpose. In 2022/2023, UNOC temporarily invested money intended to meet EACOP funding requirements in government bonds and fixed deposits, while waiting for the EACOP project company to call for it.[81] UNOC should be commended for the strategic use of money sitting in its account. However, such investments raise three key issues. First, the profit that UNOC made on this investment—the interest that government paid to UNOC—is essentially a transfer of funds from the government to UNOC outside the previously agreed budget and spending plan for the year. Second, had UNOC not needed the money immediately for the EACOP cash call, the government would likely have been able to use it more effectively in the interim to meet other spending needs or reduce borrowing. Third, the potential for such investments could influence UNOC's funding requests going forwards—for example, requesting funding before it is due, in order to make short-term investments with it. To address such a situation, parliament could at least approve any future use of funds that is different from their intended purpose, as recommended by the auditor general. However, the government could consider fully prohibiting this practice in the PFMA.

Such a reliance on the budgetary process and parliamentary approval do not come without risk. Inefficiencies in the parliamentary process could lead to temporary illiquidity or delay time-sensitive financing. However, the most time-sensitive needs are likely to arise from UNOC's participation in upstream joint ventures, and section 57(5) already provides for the retention of sales revenues to be deemed approved if parliament has not made a decision within 15 days. Having to apply to the government every year for a budget could also create uncertainty for UNOC. Not knowing how much the company will get the next year might discourage it from making multi-year investments that would be beneficial for Uganda. However, this risk can be reduced by UNOC receiving a multi-year budget allocation, rather than the typical one-year amount. Section 23 of the PFMA allows multi-year expenditure commitments if approved by parliament.

Petroleum fund balances

Key recommendations:

- Clarify the treatment of balances in the Petroleum Fund.

The PFMA should be clearer on the flows of money between the Petroleum Fund, Consolidated Fund and PRIR. Section 59(6) states that any remaining money in the Petroleum Fund after the government transfers the agreed amount to the Consolidated Fund shall be invested by the Bank of Uganda. Any revenues and benefits shall then be "available at call." However, section 62(3) states that any remaining money in the Petroleum Fund after appropriation to the Consolidated Fund shall be transferred to the PRIR.

It is possible that the money referred to in section 59(6) has been authorized in the Appropriation Act to be transferred to the Consolidated Fund later that financial year, while the money referred to in section 62(3) is money in excess of that to be transferred to the Consolidated Fund—for example, if oil revenues are higher than expected.

However, this is not clearly specified and may not be the intention. Moreover, investment of the money referred to in section 59(6) will generate a return. Once the money invested has been called, it is unclear whether this return will then remain in the Petroleum Fund to be invested again, or will be transferred to the PRIR.

Section 62(3) also appears inconsistent with section 59(4). Section 59(4) stipulates that any money that is authorized in the Appropriation Act but is not withdrawn from the Petroleum Fund by the end of a financial year shall be retained in the Petroleum Fund. Again, if section 62(3) is only referring to money in excess of that authorized in the Appropriation Act, these sections may be referring to different types of money. However, this is unclear. Whether the money retained in the Petroleum Fund at the end of a year is then invested by the Bank of Uganda to be available at call, and if so, at what point in time that invested money is called, is also unclear. Clarity in the PFMA or regulations is critical to ensure that these balances are treated as intended and effective oversight of this process is possible.

Subnational sharing of royalty revenue

Key recommendations:

- Define petroleum exploration and production areas for determining the local governments that will receive a royalty share, and clarify the mechanism for allocating this share between local governments.
- Specify the criteria that will determine which cultural or traditional institutions will receive a royalty share, and clarify the size of this royalty share.
- Specify that local governments and cultural and traditional institutions must spend their petroleum revenues in accordance with section 59(3), and clarify that a local government can access any unspent funds in subsequent years.

Section 75 of the PFMA provides for the sharing of royalty revenues with local governments and cultural or traditional institutions. Figure 6 (on the next page) sets out the contents of this section. However, the section is vague about the precise mechanism that the government will use. Discussions with local government officials and civil society organizations in the oil-rich region indicate that this lack of clarity is frustrating local governments' planning and their ability to manage public expectations.[82]

The challenge of establishing an extractives revenue-sharing mechanism that benefits communities is not unique to Uganda. NRGI's work in countries such as Indonesia highlights the difficulty in ensuring revenues are shared based on a clear and predictable formula that is broadly seen as fair.[83] Such complexities have led to delayed implementation in several countries, such as Guinea, reinforcing the importance of the Ugandan government focusing on this issue now, and in a transparent manner.[84]

Recipients of a royalty share

Section 75(1) provides for 6 percent of total royalty revenues to be shared among the local governments "located within the petroleum exploration and production areas." Section 75(2) states that the list of local governments that will receive royalty revenues will be published. However, the Ministry of Energy and Mineral Development has yet to do so.[85] This lack of communication is compounded by a lack of clarity in the PFMA over how an exploration or production area will be defined. The government could provide this definition in the PFMA or regulations—for example, whether it covers any area for which an oil block has been demarcated, or whether it refers only to an area for which a petroleum license has been granted.

Section 75(8) provides for one percentage point of the royalty due to the central government to be shared with gazetted cultural or traditional institutions. However, which institutions will be gazetted is similarly unclear. The government could specify the criteria that will determine this selection in the PFMA or regulations.

Figure 6. Uganda's subnational revenue-sharing mechanism

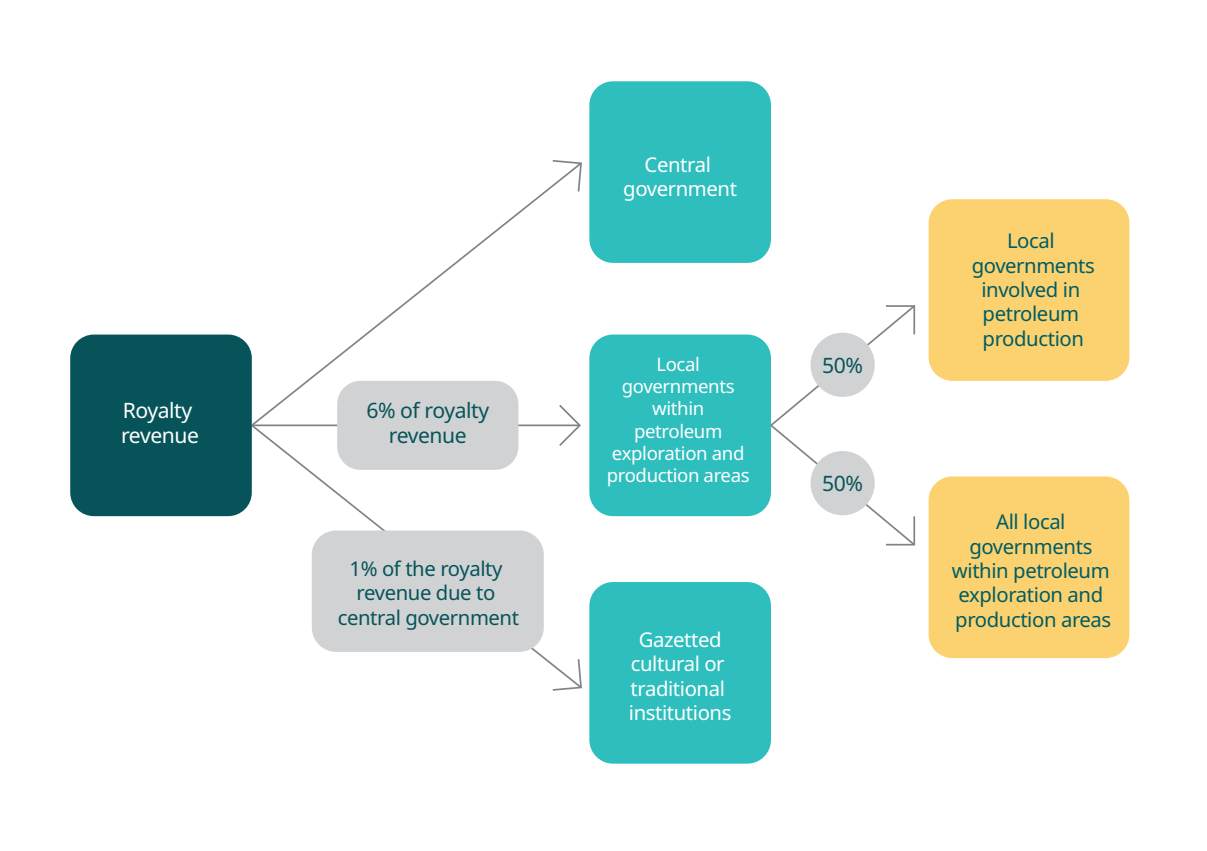




Photo by Omri Eliyahu / Shutterstock

Mechanism for determining the allocation between local governments

Section 75 specifies that 50 percent of the local government share will be distributed among local governments involved in production, based on their production level or "impact." The other 50 percent will be shared among all local governments based on "population size, geographical area and terrain." However, the formulas in the PFMA's schedule 6 only include production level and population size. The government could amend the PFMA to clarify whether the criteria in section 75 or those in schedule 6 will be used. For example, if production level is the only criterion, the first 50 percent would likely be shared among just five districts. However, if "impact" is included—depending on how it is defined—it could be distributed among many more districts, such as those along the EACOP route. If multiple criteria are to be used, the PFMA or regulations should also specify how they will be weighted. The government could also provide clear definitions for each criterion. For example, it is unclear whether "impact" refers to the socio-environmental effects of oil production or something else, and how such impact would be measured.

Size of the royalty share for cultural or traditional institutions

The government could clearly define in the PFMA or regulations what "one percentage point of the royalty due to the central government" entails. For example, if the total royalty revenue is $100 million in a given year, the central government will initially receive $94 million, with the remaining $6 million being shared among local governments. Whether cultural or traditional institutions will receive $1 million (representing 1 percent of total royalty revenue) or $0.94 million (representing 1 percent of the royalty revenue received by central government) is currently unclear.

Rules for subnational revenue management

Section 59(3) specifies that petroleum revenues should only be spent on "infrastructure and development projects." The PFMA does not contain any language that suggests that this section does not apply to all petroleum revenues, whether spent by central government, local governments, or cultural and traditional institutions. However, section 75(9) states that the royalty revenues that local governments receive are for "development purposes." This slight difference in language makes it unclear whether local governments are required to adhere to section 59(3). The PFMA does not specify how cultural and traditional institutions should spend their share of royalty revenue. The government could specify in the PFMA that local governments and cultural and traditional institutions must spend their petroleum revenues in accordance with section 59(3). It could also make explicit the link between this spending and achieving key development objectives, as recommended above for section 59(3).

Section 17(1) prevents local governments retaining a budget allocation after the end of the financial year. The PFMA or regulations could stipulate how any money from a local government's share of royalty revenues that is unspent at the end of the year will be treated—for instance, whether it will be returned to the Petroleum Fund, and if so, whether the local government will receive it again for the following financial year in addition to that year's allocation. Providing access to leftover oil revenues in subsequent years will be important, so that local governments do not spend money ineffectively to avoid losing it. It will also enable local governments to smooth spending as royalty revenues fluctuate with production and prices.[86]

Strengthening these rules is only the first step. As Peru's experience highlights, increasing the capacity of local governments to address the unique challenges of resource revenues will be critical.[87] Similarly, Colombia provides lessons on the importance of developing transparent processes for both the distribution and use of funds.[88]

Compliance with the revenue management framework

Key recommendations:

- Clearly define in the PFMA what constitutes an "unanticipated economic shock" for purposes of invoking the escape clause, and require public disclosure when the clause is used or CFR objectives are otherwise breached.
- Ensure the auditor general, Parliamentary Budget Office and relevant parliamentary directorates have sufficient resources to monitor compliance and utilization of oil revenues.
- Require comprehensive disclosure of UNOC finances and investment plans, along with the government's long-term oil revenue forecasts and underlying assumptions.
- Set criteria in the PFMA for how much a new CFR can differ from the previous one, and require justification for major changes, ensuring continued alignment with East African Community fiscal convergence targets.

The revenue management framework must be enforceable, otherwise it risks being undermined by a lack of government compliance. The limited adherence to CFR objectives since the PFMA was enacted highlights the need to strengthen the enforcement mechanism. For example, the government exceeded the ceilings on the fiscal deficit and recurrent expenditure growth in the first three years of the current CFR.[89]

Uganda is not alone in its low levels of compliance with its fiscal rules. The experience of other countries highlights several characteristics of an effective revenue management framework.[90] As reflected in the discussion above, Uganda's rules should be:

- tailored to the country's specific economic challenges and opportunities
- as counter-cyclical as possible
- under government control
- simple to operationalize, communicate and monitor.

In addition, any revenue management framework should also:

- have annual targets
- have a well-designed escape clause
- be supported by transparency and strong oversight
- be based on national consensus.

Annual targets

Noncompliance during the first CFR for 2016/2017 to 2020/2021 partly resulted from the CFR not having annual targets. With the government only having to meet a target at the end of the CFR period, its public finance decisions were insufficiently constrained in the preceding years to make meeting this target a realistic prospect. In response, the government included annual targets in the current CFR. However, section 5(1) of the PFMA only requires annual targets for three of the five years that a CFR covers. To ensure the approach in the current CFR continues in subsequent charters, the government could amend this section to require annual targets for the duration of the CFR period.

The escape clause and other breaches

Fiscal rules should have escape clauses to deal with unforeseen events. However, several countries have escape clauses that can be invoked in normal times, enabling rules to be avoided too easily. For example, Tanzania's government can suspend its fiscal rules, if parliament approves, to fund major strategic investments.[91]

The escape clause set out in Section 7 of Uganda's PFMA also provides too much flexibility. It gives a vague description of when the government can deviate from CFR objectives: "…in cases of natural disaster, unanticipated severe economic shocks, or significant or unforeseen events that cannot be funded from the budget's contingency fund or other funding mechanisms or using prudent fiscal policy instruments."

The PFMA should provide a clear definition of what constitutes an unanticipated economic shock. Section 3.2 of the current CFR gives more detail. It defines this shock as two consecutive quarters of negative GDP growth. However, it would be beneficial to specify the size of the decline that would justify the deviation request, to fully protect against circumvention of the rules.

Once the government invokes the escape clause, section 3.3 of the current CFR requires it to publish a report explaining the reasons for the deviation and its plan to bring the public finances back to the original path over the remaining years of the CFR. The government could include this requirement in the PFMA to ensure it is maintained in future CFRs.

The PFMA could also require the government to report to parliament when it breaches the CFR objectives but does not invoke the escape clause. Currently, the government could decide to not invoke the escape clause to reduce scrutiny of its breaches. While section 18 requires the minister of finance to consult with parliament in October and March on progress towards meeting annual objectives, it does not require reporting on compliance at the end of the year. In the event of a breach, this report could include an explanation of the causes, and a plan with specified measures for correcting it. The PFMA could require publication of such a report.

Oversight

Strong oversight will be crucial for enforcement of Uganda's revenue management framework and ensuring oil revenues are utilized as intended. Several countries have an external oversight body that is tasked with monitoring compliance, to supplement the general oversight provided by typical parliamentary processes. These bodies tend to be either supreme audit institutions, fiscal councils or parliamentary budget offices.[92]

Given Uganda's scarce human and financial resources, the government has rightly assigned oversight responsibilities to existing entities, rather than establishing a new institution, such as a fiscal council. Parliament's oversight capacity is supported by a Parliamentary Budget Office and parliament's directorates of research and legal affairs. Section 73 of the PFMA requires the Auditor General to audit the Petroleum Fund and the PRIR on a semi-annual basis and to submit the resulting reports to parliament. The government and parliament could work together to ensure that these entities have sufficient resources and an effective coordination mechanism to play a rigorous monitoring role.

Other stakeholders, such as civil society, the media, research institutes and academia, should complement this official oversight by parliament and the auditor general. In the absence of effective civil society oversight, countries such as Equatorial Guinea and Angola have experienced mismanagement and corruption scandals.[93, 94]

Transparency

Effective oversight requires transparency. Uganda has a credible track record for transparency of its public finances. In the Open Budget Survey, the country has consistently ranked above the sub-Saharan African and global averages.[95] It has recently become a member of the Extractive Industries Transparency Initiative (EITI), which has increased transparency around the collection of oil revenues and Petroleum Fund deposits and withdrawals.[96]

The PFMA also contains strong requirements for disclosing fiscal information, including that required to monitor management of oil revenues in Part VIII. However, gaps remain.

Revenues

Section 61(1) requires the government to table before parliament semi-annual and annual reports that include "the actual inflows and outflows of the Petroleum Fund" and the "source of the petroleum revenue." Amendments to the PFMA or regulations could provide clarity on these requirements, to ensure that parliament and the wider public can effectively monitor whether revenues generated by the sector represent a fair share for the country, and whether companies are complying with their fiscal obligations.

The reference to "source of the petroleum revenue" could be defined as the company which made each original payment to the government, regardless of whether that payment was paid directly into the Petroleum Fund or whether it came via the Uganda Revenue Authority or another government entity.

"Inflows" of the Petroleum Fund (i.e. company payments to government) could be broken down by revenue type and project, as well as dated. To ensure reporting reflects current global standards, the PFMA or regulations could require it to align with the EITI Standard and any future changes to it.

For the avoidance of doubt, "inflows" could include petroleum paid in kind to UNOC, not just the proceeds from its subsequent sale. Section 57(5)-(6) states that this petroleum will be recorded as an asset of the Petroleum Fund, and that on its disposal, the proceeds will be remitted to the Petroleum Fund. It is possible that the PFMA will currently be interpreted to mean that "inflows" include only the proceeds from the sale of petroleum paid in kind. However, these payments can be a source of significant revenue loss for governments, and they require careful monitoring. The PFMA or regulations could require public reporting on the petroleum paid in kind and the revenues that its sale generates—with the revenue type that the payment falls under, the project that made the payment, and the date of receipt specified for both.

Section 61(2) stipulates that the "report specified in this section" should be published on the ministry of finance website and in national newspapers by 30 September each year. The government could clarify in the PFMA or regulations that all reports in this section should be published through these channels. It could also revisit the timing of these publications. Given that the semi-annual and annual reports are to be tabled in parliament by 1 April and 31 December respectively, a publication deadline of 30 September for all of them may make their publication less useful. Finally, the PFMA or regulations could clarify that these published reports should include all the information mentioned above.

Auditor general reports

Section 73 of the PFMA requires the auditor general to submit an audit report of the Petroleum Fund and the PRIR to parliament, as noted above. These reports are currently published online, which is helping to increase oversight of these accounts and to build public trust in how they are being managed. However, to ensure this practice continues, the PFMA or regulations could require these reports to be published and made available online.

Petroleum Revenue Investment Reserve

Section 70 requires the Bank of Uganda to publish online semi-annual reports on the performance and activities of the PRIR. Section 72 requires it to also table an annual report in parliament. The information contained in these reports will determine whether parliament and the wider public can undertake effective oversight of the PRIR, including to monitor adherence to the investment policy, and assess the performance and conduct of external investment managers. However, the PFMA provides limited detail on their contents. Amendments to the PFMA or regulations could specify that the following information is required in the reports provided for in sections 70 and 72:

- size of the fund
- returns on investments
- geographic location of investments
- categories of investments (the "instruments" used—for example, fixed income, equity, etc.)
- currency composition of investments
- list of specific investments.

The PFMA or regulations could also specify that the annual report is to be published online. Section 72 currently states only that the report is to be tabled in parliament. While this means that the report will become a public document, it does not ensure that it will be easily accessible to the public.

UNOC finances

Opacity has long impeded the performance of many NOCs, with the resulting lack of oversight leading to inefficiency, waste and unaccountable risk-taking. Disclosures around NOC expenditures are particularly weak, with fewer than two-thirds of the 71 NOCs included in NRGI's National Oil Company Database publishing any data on their capital expenditures.[97] The additional risks of the energy transition amplify the importance of strong corporate governance. These risks necessitate not only greater disclosure of an NOC's financial inflows and outflows, but also information on the assumptions underpinning the valuation of its assets and planned investments. Several NOCs disclose the scenarios against which they evaluate projects, while Indonesia's NOC, Pertamina, also discloses the implications of these scenarios. For example, in its 2022 annual report, Pertamina specified that it is projected to lose around 50 percent of its revenue by 2030 at the current pace of the transition.[98]

Disclosure of UNOC's finances and investments is currently limited. In contrast to more than half of other NOCs, UNOC does not publish an annual report.[99] The public version of the auditor general's annual report on the company's accounts does not contain the financial statements.

Despite EITI Standard requirement 2.6, EITI reports published to date do not disclose UNOC's financial inflows and outflows, or information about its planned investments.[100]

The government could require in the PFMA or regulations that UNOC disclosures comply with the EITI Standard. However, to avoid a narrow interpretation of EITI requirements, the PFMA or regulations could also explicitly state that UNOC is required to disclose:

- all financial flows into UNOC, including revenue from oil and gas sales, revenue from non-core activities, equity capital, debt capital and transfers from the government
- all financial flows out of UNOC, including capital investments, operational expenditures, financial payments (including debt payments), and taxes, dividends and other transfers from UNOC to the government
- an independent auditor's statement certifying that this information on inward and outward financial flows meets the International Financial Reporting Standards[101]
- assumptions underpinning the value of planned and current investments, including long-term prices, break-even prices and the carbon intensity of the project, and scenarios used to assess investment plans.[102]

Revenue forecasts

Uganda's revenue outlook is a key determinant of government decision-making on the revenue management framework. Several countries have an independent body that has a role in revenue forecasting to ensure it is objective and not influenced by the government's plans for the public finances. Chile and Germany outsource their fiscal projections to independent committees, while Canada uses an average of independent external analyst projections in its budget process.[103]

Government disclosure of the forecasts it is using, and the underlying assumptions that inform them, is therefore critical for providing oversight of the calibration of the framework.

It should also help manage public expectations, reducing the pressure on government to spend and borrow unsustainably.

Section 61(1) requires the minister of finance to publish the forecast for the year ahead. However, this requirement could be expanded to include annual disclosure of the long-term forecast—for example, for the duration of the Lake Albert project. In line with the EITI Standard, this disclosure could include an explanation of how the government has considered energy transition and climate risks in its forecasting.[104]

National consensus

Public consensus on the revenue management framework is critical. If the public understands the importance of the framework and feels like it has had a voice in its design, it is more likely to pressure the government to comply with it. In Ghana, for example, the government carried out roadshows across the country to solicit the public's views on how much oil revenue to save and spend. The U.S. states of North Dakota and Wyoming held state-wide referendums on the same question. It is not too late for the Ugandan government to conduct public sensitization and ensure a consultative, inclusive multi-stakeholder approach to calibrating the revenue management framework. However, it will need to act quickly.

Changes to future CFRs

An additional risk to the revenue management framework's effectiveness lies in the fact that key parts of the framework are set out in the CFR, which changes every five years. The fiscal rules being set in the CFR provides beneficial flexibility. For example, it enables the government to gradually scale up spending of oil revenues, as spending effectiveness and absorptive capacity improve, and then to adjust saving plans if savings are likely to generate greater returns than spending or paying down high-interest debt. This flexibility is particularly beneficial given the uncertain revenue outlook. However, it also risks future governments changing approach in a way that is not in the country's interests.

To reduce this risk, the government could include criteria in the PFMA that guide how much a CFR can differ from the last. It could also require that any large changes must be explained—for example, by a significant change in current or expected oil revenues or economic performance—and shown to still comply with the main fiscal anchors of the East African Community convergence criteria.

Even with such restrictions, the government could consider incorporating more of the contents of the CFR in the PFMA itself. For example, as noted above, it could establish a recurrent expenditure rule in the PFMA. This would provide further certainty that the government will observe the rule.

Conclusion

The PFMA and accompanying CFRs provide a relatively solid framework for effective management of Uganda's oil revenues, but the Ministry of Finance, Planning and Economic Development could strengthen it further. It could primarily do so by amending the act, and if needed subsequently, producing regulations. With Uganda's first oil as little as one year away, we set out our key recommendations below.

Immediate implications of revenue uncertainty

- Avoid increasing borrowing in expectation of large oil revenues.

Revenues deposited in the Petroleum Fund

- Define "petroleum operations" in the PFMA or Income Tax Act to include EACOP and the refinery, ensuring revenue from all parts of the value chain is deposited in the Petroleum Fund.
- Require UNOC dividends to be deposited in the Petroleum Fund.

Spending of petroleum revenues

- Make explicit in the PFMA that oil revenues should support key development goals, particularly economic diversification.
- Use the non-oil primary balance as the main fiscal anchor in future CFRs, and include borrowing by state-owned enterprises in calculation of the balance.
- Reassess the CFR's limit on recurrent expenditure to ensure adequate development spending, and codify this in the PFMA.

Use of PRIR funds

- Clarify PRIR's objectives in the PFMA and align related provisions accordingly.
- Prioritize paying down high-interest debt with PRIR funds.
- Allocate a portion of remaining funds to a stabilization buffer, to be used only for major shocks.
- Restrict PRIR investments to foreign, non-oil assets and define qualifying instruments in the PFMA.

UNOC financing

- Clarify in the PFMA or related regulations how UNOC's access to Petroleum Fund resources is sequenced relative to the Consolidated Fund and PRIR allocations.
- Require UNOC to publicly disclose investment plans under different scenarios before parliamentary approval.
- Establish that any additional UNOC funding needs will be covered through multi-year budget allocations.

Petroleum Fund balances

- Clarify the treatment and oversight of Petroleum Fund balances to ensure proper management and transparency.

Subnational sharing of royalty revenues

- Clarify revenue-sharing formulas both for local governments and cultural and traditional institutions.
- Require these entities to use petroleum revenues in line with key development priorities.
- Specify that local governments can carry forward unspent petroleum funds to future years.

Compliance and oversight

- Clearly define in the PFMA what constitutes an "unanticipated economic shock" for purposes of invoking the escape clause, and require public disclosure when the clause is used or CFR objectives are otherwise breached.
- Ensure the auditor general, Parliamentary Budget Office and relevant parliamentary directorates have sufficient resources to monitor compliance and utilization of oil revenues.
- Require comprehensive disclosure of UNOC finances and investment plans, along with the government's long-term oil revenue forecasts and underlying assumptions.
- Set criteria in the PFMA for how much a new CFR can differ from the previous one, and require justification for major changes, ensuring continued alignment with East African Community fiscal convergence targets.



Photo by Piu_Piu / Shutterstock

Endnotes

1 Ruth Nankabirwa Ssentamu, X post, 30 April 2025, x.com/NankabirwaRS/status/1917619073682120854. The companies involved, Total and CNOOC, think that first oil might not be until 2027 due to challenges with finalizing financing for EACOP; Frederic Musisi, "Uganda's oil production could stretch into 2027," *The Monitor*, 14 October 2024, www.monitor.co.ug/uganda/special-reports/uganda-s-oil-production-could-stretch-into-2027-4793606#story.

2 Rystad Energy UCube, as of 14 May 2025.

3 EACOP, "Overview," visited 14 May 2025, www.eacop.com/overview/.

4 Uganda National Oil Company, "Uganda Refinery Implementation Agreement Signed," 29 March 2025, www.unoc.co.ug/uganda-refinery-implementation-agreement-signed/.

5 African Development Bank, African Economic Outlook 2024: Driving Africa's Transformation (2024), www.afdb.org/en/knowledge/publications/african-economic-outlook.

6 IMF, Uganda: 2024 Article IV Consultation-Press Release; Staff Report; and Statement by the Executive Director for Uganda (2024), www.imf.org/en/Publications/CR/Issues/2024/09/11/Uganda-2024-Article-IV-Consultation-Press-Release-Staff-Report-and-Statement-by-the-554753.

7 Hannah Ryder, Trevor Lwere and Ovigwe Eguegu, "How Should Africa Respond to Trump's New Tariffs?" Center for Strategic and International Studies, 8 April 2025, www.csis.org/analysis/how-should-africa-respond-trumps-new-tariffs.

8 Ministry of Finance, Planning and Economic Development (MoFPED), Charter for Fiscal Responsibility FY2021/22 – FY2025/26 (2022), www.ugeiti.org/wp-content/uploads/2023/11/Charter-for-Fiscal-Responsibility.pdf.

9 See our review of the PFMA at the time of its passage into law: Paul Bagabo, "Uganda's Oil Revenue Management Framework is a Solid Start, but Not Nearly Enough," NRGI, 6 October 2015, resourcegovernance.org/blog/ugandas-oil-revenue-management-framework-solid-start-not-nearly-enough.

10 MoFPED produced regulations to operationalize the PFMA in 2015. However, while MoFPED included a section on petroleum revenue management in initial drafts of the regulations, it did not include this section in the final version. The PFMA presents some ambiguity as to whether the minister is limited with respect to the scope of possible regulations. Despite section 81(1)'s general empowering of the minister to "make regulations for better carrying into effect of this Act," subsection (2) then provides that "notwithstanding the general effect of subsection (1) the Minister shall make regulations for…" and lists specific issues for which the Minister shall make regulations. The Minister may also amend the schedules to the PFMA via statutory instrument as per section 83. The PFMA should be amended to remove this ambiguity and ensure that the Minister can make regulations on all aspects of the act. The government could clarify section 81 to specify the issues on which the Minister "shall" make regulations under subsection (1), and then provide in subsection (2) that "the Minister may, by statutory instrument, otherwise make regulations on any other matter for the better carrying into effect of this Act."

11 World Bank, Uganda Oil Revenue Management: Closing Gaps in the Fiscal and Savings Frameworks to Maximize Benefits (2021), documents.worldbank.org/en/publication/documents-reports/documentdetail/873501591694701210/uganda-oil-revenue-management-closing-gaps-in-the-fiscal-and-savings-frameworks-to-maximize-benefits.

12 Peninah Aheebwa, "Uganda's Oil and Gas Projects: The Value at Stake," Petroleum Authority of Uganda, 13 September 2022, www.pau.go.ug/ugandas-oil-and-gas-projects-the-value-at-stake.

13 David Mihalyi and Thomas Scurfield, How did Africa's prospective petroleum producers fall victim to the presource curse (World Bank, 2020), openknowledge.worldbank.org/entities/publication/5ab8c07f-1dc0-56b3-857d-7db4ff8b517a.

14 International Energy Agency (IEA), Oil 2024 (2024), www.iea.org/reports/oil-2024.

15 Ciarán Healy, Rebecca McKimm and Ivo Walinga, "Oil demand for fuels in China has reached a plateau," IEA, 11 March 2025, www.iea.org/commentaries/oil-demand-for-fuels-in-china-has-reached-a-plateau.

16 bp, Energy Outlook 2024 (2024), www.bp.com/en/global/corporate/energy-economics/energy-outlook.html.

17 Rystad price estimates are generally lower than estimated by the IEA itself. This is partly due to differing assumptions about factors such as discount rates, and partly due to the IEA's assumption that "major resourceholders," such as the Organization of Petroleum Exporting Countries (OPEC), will continue to pursue "active market management strategies" and keep the price of oil higher than if it was freely determined. IEA, World Energy Outlook 2023 (2023), www.iea.org/reports/world-energy-outlook-2023.

18 Rystad estimated these price scenarios using the IEA and OPEC's demand projections. Rystad Energy UCube, as of 14 May 2025.

19 Rystad Energy UCube, as of 14 May 2025. The oil blocks and EACOP are separate taxable entities. Rystad assumes that they are the same taxable entity, for simplification purposes. Discussions with Rystad indicate that this integrated approach should not materially impact government revenue projections. Rystad does not directly estimate dividends from UNOC's participation in the Lake Albert project and EACOP. We have estimated them based on Rystad's projections of free cash flow.

20 We published our model of Uganda's planned oil refinery in 2024. See: Paul Bagabo and Thomas Scurfield, Uganda's Oil Refinery: Gauging the Government's Stake (NRGI, 2024), resourcegovernance.org/publications/uganda-oil-refinery-gauging-governments-stake. We updated this model with Rystad's most recent production and price projections, and the plan for the refinery to be fully financed by equity, to estimate government revenue for this report.

21 We assumed that non-oil GDP grows in line with the projections in the International Monetary Fund's Article IV until 2029, the last year that these projections currently cover. We assumed that non-oil GDP grows 6 percent a year after 2029, which we based on historic and current growth rates. We assumed that non-oil revenues also grow in line with the IMF's Article IV projections until 2029 and then at 6 percent after 2029, in line with non-oil GDP. IMF, Uganda: 2024 Article IV Consultation.

22 The budget for 2025/2026 allocates UGX 5.870 trillion to health and UGX 11.333 trillion to interest payments. MoFPED, The Budget Speech Financial Year 2025/2026 (2025), budget.finance.go.ug/content/budget-speech-13. We used the exchange rate in May 2025 of USD 1:UGX 3,653 to convert these amounts to U.S. dollars. MoFPED, Performance of the Economy Monthly Report May 2025 (2025), mepd.finance.go.ug/documents/POE/2025/POE-2025-05-MAY.pdf.

23 We assumed that non-oil GDP grows in line with the projections in the International Monetary Fund's Article IV until 2029, the last year that these projections currently cover. We assumed that non-oil GDP grows 6 percent a year after 2029, which we based on historic and current growth rates. We assumed that non-oil revenues also grow in line with the IMF's Article IV projections until 2029 and then at 6 percent after 2029, in line with non-oil GDP. IMF, Uganda: 2024 Article IV Consultation.

24 See for example: Alex Procyk, "Oranto Petroleum renews Uganda exploration license," *Oil & Gas Journal*, 2 January 2024, www.ogj.com/exploration-development/article/14303212/oranto-petroleum-renews-uganda-exploration-license.

25 Nebert Rugadya, "UNOC Commences Oil Exploration Activities in Kasurubani Area," Uganda Radio Network, 14 January 2025, ugandaradionetwork.net/story/unoc-commences-oil-exploration-activities-in-kasurubani-area-.

26 Reuters, "Uganda says it's exploring for oil in two new regions," 21 August 2024, www.reuters.com/world/africa/uganda-says-its-exploring-oil-two-new-regions-2024-08-21/.

27 David Mihalyi and Thomas Scurfield, How did Africa's prospective petroleum producers fall victim to the presource curse?

28 MoFPED, The Budget Speech Financial Year 2025/2026.

29 MoFPED, Debt Sustainability Analysis Report FY2023/24 (2025), www.finance.go.ug/reports/annual-debt-sustainability-report-fy-202324; IMF, Uganda: 2024 Article IV Consultation.

30 MoFPED, The Budget Speech Financial Year 2025/2026.

31 "Resource-backed loans" is a term that has been used to collectively refer to all loans provided to a government entity, where repayment is either: made directly in natural resources such as oil or minerals (typically valued at the market price); made from a resource-related government revenue stream; in the form of returns from a resource development right granted to the lender or related party; guaranteed by a resource-related income stream, or where a natural resource asset serves as collateral.

32 The government is reported to have rebutted a proposal by China's EXIM bank for the bank to be given oil revenue in the event of the government struggling to repay the proposed loan for a standard gauge railway. *The Independent*, "Uganda declined China request to repay SGR loan with oil cash," 15 April 2021, www.independent.co.ug/uganda-declined-chinas-request-to-repay-sgr-loan-with-oil-revenue/.

33 Ghana's Petroleum Revenue Management Act prohibited borrowing against the country's oil and gas revenues, but it was later amended to only prohibit borrowing against oil and gas reserves.

34 David Mihalyi, Aisha Adam and Jyhjong Hwang, Resource-Backed Loans: Pitfalls and Potential (NRGI, 2020), resourcegovernance.org/analysis-tools/publications/resource-backed-loans-pitfalls-potential.

35 African Development Bank, "Africa's $824 billion debt burden and opaque resource-backed loans hinder its potential, African Development Bank President warns," 19 April 2024, www.afdb.org/en/news-and-events/press-releases/africas-824-billion-debt-burden-and-opaque-resource-backed-loans-hinder-its-potential-african-development-bank-president-warns-70183.

36 The gap between Uganda's per capita income and the sub-Saharan African average has widened in recent years. IMF, Uganda: 2024 Article IV Consultation.

37 The World Bank reported the infrastructure gap to be $1.4 billion a year in 2017. Rachel K. Sebudde, Uganda economic update: ninth edition, Infrastructure finance deficit: can public-private-partnerships fill the gap? (World Bank, 2017), documents.worldbank.org/en/publication/documents-reports/documentdetail/261811498801726339/uganda-economic-update-ninth-edition-infrastructure-finance-deficit-can-public-private-partnerships-fill-the-gap.

38 IMF, Uganda: 2024 Article IV Consultation.

39 IMF, Technical Report – Public Investment Management Assessment (2022), www.imf.org/en/Publications/CR/Issues/2022/11/21/Uganda-Technical-Report-Public-Investment-Management-Assessment-525797.

40 Fazeer Rahim, Richard Allen, Rolando Ossowski and Amitabh Tripathi, Uganda: The Fiscal Management of Oil Resources (IMF, 2019).

41 IEA, The Oil and Gas Industry in Net Zero Transitions (2023), www.iea.org/reports/the-oil-and-gas-industry-in-net-zero-transitions.

42 Fazeer Rahim et al, Uganda: The Fiscal Management of Oil Resources.

43 The East African Monetary Union Protocol sets out convergence criteria aimed at promoting monetary integration, harmonized fiscal policy and ultimately the adoption of a common currency. East African Community, Protocol on the Establishment of the East African Community Monetary Union (2013), www.eac.int/index.php?option=com_documentmananger&task=download document&file=bWFpbl9kb2N1bWVudHNfcGRmX0RsRZaQ2NZbmV0a3l3a0JHTk9UVkRNRUFDIE1vbmV0YXJ5IFVuaW9uIFByb3RvY29s&counter=105.

44 Figure 2.2 in World Bank, Uganda Oil Revenue Management.

45 Government of Tanzania, The Oil and Gas Revenues Management Act (2015), www.pura.go.tz/uploads/documents/en-1604950680-OIL%20AND%20GAS%20REVENUE%20MANAGEMENT%20ACT,%202015.pdf.

46 World Bank, Uganda Oil Revenue Management.

47 See, for example: Mark Evans, "In Ghana, Fiscal Responsibility Remains Elusive Even as Oil Flows," NRGI, 11 August 2015, resourcegovernance.org/articles/ghana-fiscal-responsibility-remains-elusive-even-oil-flows. There have also been instances of the government initially classifying spending—such as on free senior high school provision—as capital expenditure, then reclassifying it later as recurrent expenditure. This reclassification has resulted in the government failing to comply with the revenue management law's requirement for recurrent expenditure to account for only 30 percent of spending of oil revenues. Denis Gyeyir, "What Ghana's 2021 Budget Reveals About Its Oil Fund Management," NRGI, 5 July 2021, resourcegovernance.org/articles/what-ghanas-2021-budget-reveals-about-its-oil-fund-management.

48 World Bank, Uganda Oil Revenue Management.

49 This is not based on the IMF's capital expenditure projections. It is the sum of oil revenues worth 2.4 percent of non-oil GDP, grants of 0.7 percent of non-oil GDP and a fiscal deficit of 1.3 percent of non-oil GDP, as projected for 2028/2029 by the IMF. It assumes that the government does not increase borrowing in response to recurrent expenditure growing more than the IMF expects. Capital expenditure is 4.4 percent in 2028/2029 in this scenario. IMF, Uganda: 2024 Article IV Consultation.

50 Government of Peru, Balance del fondo de estabilizacion fiscal (2023), www.mef.gob.pe/es/fondo-de-estabilizacion-fiscal.

51 Diana Roy and Amelia Cheatham, "Venezuela: The Rise and Fall of a Petrostate," Council on Foreign Relations, 31 July 2024, www.cfr.org/backgrounder/venezuela-crisis.

52 Using GDP as the anchor means there is still potential for pro-cyclicality. However, other anchors such as a multi-year GDP average or structural GDP are complex to measure and communicate. These complexities increase the risk of miscalculation and manipulation, and make oversight more difficult.

53 Fazeer Rahim et al, Uganda: The Fiscal Management of Oil Resources.

54 IMF Article IV reviews.

55 Andrew Bauer, Ragchaasuren Galindev, Munkh-Orgil Lkhagvajav, David Mihalyi and Nomuuntugs Tuvaan, Fiscal Sustainability in Mongolia (NRGI, 2017), resourcegovernance.org/sites/default/files/documents/fiscal-sustainability-in-mongolia.pdf.

56 Government of Mexico, Ley Federal de Presupuesto y Responsabilidad Hacendaria (2006), www.diputados.gob.mx/LeyesBiblio/pdf/LFPRH.pdf.

57 Andrew Bauer and David Mihalyi, Premature Funds: How Overenthusiasm and Bad Advice Can Leave Countries Poorer (NRGI, 2018), resourcegovernance.org/publications/premature-funds-how-overenthusiasm-and-bad-advice-can-leave-countries-poorer.

58 We calculated the average return between 2014 and 2023, weighted by the fund balance at the start of the year. We did not account for the withdrawals from the Ghana Stabilisation Fund in several of the years during this period, due to information constraints. Bank of Ghana, Ghana Petroleum Funds Annual Report, 2015-2023, www.bog.gov.gh/ghana-petroleum-funds/gpf-financial-statements/.

59 MoFPED, Debt Sustainability Analysis Report FY2023/24.

60 Fred Ojambo, "Uganda Plans Pivot From Commercial Loans After Racking Up Debt," Bloomberg, 8 May 2024, www.bloomberg.com/news/articles/2024-05-08/uganda-plans-pivot-from-commercial-loans-after-racking-up-debt.

61 IEA, The Oil and Gas Industry in Net Zero Transitions.

62 Prices could increase even as demand falls if, for example, some of the largest producers decide to stop or reduce production, or are forced to curtail production as lower revenues prevent further investment in a country in which the sector has a large state presence. Alternatively, prices could plummet as the low-cost producers fight for market share by flooding the market with cheap oil.

63 Luc Eyraud, William Gbohoui and Paulo Medas, A New Fiscal Framework for Resource-Rich Countries (IMF, 2023), www.imf.org/en/Publications/WP/Issues/2023/11/03/A-New-Fiscal-Framework-for-Resource-Rich-Countries-541132.

64 Government of Tanzania, The Oil and Gas Revenues Management Act.

65 World Bank, Uganda Oil Revenue Management.

66 Publicly traded instruments have several desirable features. They can always be priced (so their value can be determined at any point in time), trading volumes are much higher (so that there are always buyers and sellers), and there is no risk that a counterparty or investment partner will default.

67 Lina Saigol and Cynthia O'Murchu, "After Gaddafi: A spent force," *Financial Times*, 8 September 2011, www.ft.com/content/1b5e11b6-d4cb-11e0-a7ac-00144feab49a?siteedition=intl#axzz2PclPUcQK.

68 For further discussion on the risks of sovereign wealth funds investing in domestic assets, see Andrew Bauer, "Six Reasons Why Sovereign Wealth Funds Should Not Invest or Spend at Home," NRGI, 7 April 2015, resourcegovernance.org/articles/six-reasons-why-sovereign-wealth-funds-should-not-invest-or-spend-home.

69 One Planet Sovereign Wealth Funds Initiative, Framework Companion Document 2021 (2021), oneplanetswfs.org/download/150/4oct2021goodnames/1524/1_opswf-framework-companion-document-2021.pdf.

70 Government of Norway, "Guidelines for Observation and Exclusion of companies from the Government Pension Fund Global (GPFG)," 5 September 2022, www.regjeringen.no/contentassets/0d4cd079c8d44f00a0079acee984ca88/2022.09.05_gpfg_guidelines_observation_exclusion.pdf.

71 See Generally Accepted Principles and Practices 18.2 in www.ecgi.org/codes/documents/iwg_santiago_principles_oct2008_en.pdf.

72 The contribution of $300 million is based on an expected total cost of $5 billion, equity financing covering 40 percent of this cost and UNOC having a 15 percent stake in EACOP.

73 In 2021/2022, the most recent year for which this information is publicly available, UNOC received around 97 percent of its financing from the government and 3 percent from its own revenue streams. Office of the Auditor General, Report of the Auditor General on the Financial Statements of Uganda National Oil Company for the Year ended 30 June 2022 (2022), www.oag.go.ug/reports/1637.

74 The contribution of $1.8 billion is based on an expected total cost of $4.5 billion, equity financing covering all of this cost and UNOC having a 40 percent stake in the refinery. Julius Barigaba, "Uganda to wholly finance $4bn oil refinery through equity," *The East African*, 3 December 2024, www.theeastafrican.co.ke/tea/business-tech/uganda-government-to-wholly-finance-4-billion-oil-refinery-4840494; Paul Bagabo and Thomas Scurfield, Uganda's Oil Refinery: Gauging the Government's Stake.

75 Thomas Lassourd, Financing Options for the Ugandan National Oil Company (NRGI, 2015), resourcegovernance.org/publications/financing-options-ugandan-national-oil-company.

76 David Manley and Patrick R.P. Heller, Risky Bet: National Oil Companies in the Energy Transition (NRGI, 2021), resourcegovernance.org/publications/risky-bet-national-oil-companies-energy-transition; David Manley, Andrea Furnaro and Patrick R.P. Heller, Riskier Bets, Smaller Pockets: How National Oil Companies Are Spending Public Money Amid The Energy Transition (NRGI, 2023), resourcegovernance.org/publications/riskier-bets-smaller-pockets-national-oil-companies-public-money-energy-transition.

77 Based on an update to our refinery model with Rystad's most recent production and price projections and the plan for the refinery to be fully financed by equity.

78 David Manley, Andrea Furnaro and Patrick R.P. Heller, Riskier Bets, Smaller Pockets: How National Oil Companies Are Spending Public Money Amid The Energy Transition.

79 David Manley, Andrea Furnaro and Patrick R.P. Heller, Riskier Bets, Smaller Pockets: How National Oil Companies Are Spending Public Money Amid The Energy Transition.

80 Andrea Furnaro and David Manley, Facing the Future: What National Oil Companies Say About the Energy Transition (2023), resourcegovernance.org/publications/facing-future-what-national-oil-companies-say-about-energy-transition.

81 Ugandan Parliament, "UNOC records unexpected SHs37 billion profit," 28 May 2024, www.parliament.go.ug/news/7300/unoc-records-unexpected-shs37-billion-profit.

82 Thomas Scurfield and Paul Bagabo, "Uganda's Local Governments Need Clarity On Oil Revenue Sharing," NRGI, 23 August 2022, resourcegovernance.org/articles/ugandas-local-governments-need-clarity-oil-revenue-sharing.

83 David Manley, Rani Febrianti and Hari Subhash, Tangled Web: The Role of Oil, Gas and Mining in Funding Regional Governments in Indonesia (NRGI, 2020), resourcegovernance.org/analysis-tools/publications/tangled-web-role-oil-gas-mining-funding-regional-indonesia.

84 NRGI, Resource Governance Index: From Legal Reform to Implementation in Sub-Saharan Africa (2019), resourcegovernance.org/analysis-tools/publications/sub-saharan-africa-implementation-gap.

85 An early version of the Public Financial Management Bill specified the districts that will receive a share. However, the Ministry of Energy and Mineral Development retracted the list in 2015 and is yet to publish another.

86 Andrew Bauer, Subnational Oil, Gas and Mineral Revenue Management (NRGI, 2013), resourcegovernance.org/analysis-tools/publications/subnational-oil-gas-and-mineral-revenue-management.

87 Andrew Bauer, Uyanga Gankhuyag, David Manley, Sofi Halling and Varsha Venugopal, Natural Resource Revenue Sharing (NRGI, 2016), resourcegovernance.org/analysis-tools/publications/natural-resource-revenue-sharing.

88 Claudia Viale, "Reforming Colombia's Extractive Sector Royalty Distributions: Key Changes and Coronavirus," NRGI, 20 July 2020, resourcegovernance.org/blog/reform-colombia-royalty-distribution-system-key-changes-coronavirus.

89 For example, the fiscal deficit was 4.8 percent in 2023/2024, higher than the ceiling of 4.6 percent. Revenue as a percentage of GDP fell by 2.9 percent between 2022/2023 and 2023/2024, while recurrent expenditure as a percentage of GDP only fell by 1.5 percent. IMF, Uganda: 2024 Article IV Consultation.

90 David Mihalyi and Liliana Fernández, How Did Fiscal Rules Hold Up in the Commodity Price Crash? (NRGI, 2018), resourcegovernance.org/publications/how-did-fiscal-rules-hold-commodity-price-crash.

91 Section 17(2)(b) of Government of Tanzania, Oil and Gas Revenue Management Act 2015, as amended, www.tra.go.tz/IMAGES/headers/CHAPTER_328-THE_OILD_AND_GAS_REVENUES_MANAGEMENT_ACT-01.pdf.

92 Eleven of the 34 countries in NRGI's survey of countries with fiscal rules in 2018 had an external oversight body. David Mihalyi and Liliana Fernández, How Did Fiscal Rules Hold Up in the Commodity Price Crash?

93 In the years following its establishment, Angola's Fundo Soberano de Angola lost tens of millions of dollars in management fees without services rendered, and potentially over a billion dollars in poor investments in a port and hotels. Following a change of government, governance of the fund has improved. Anna Meisel and David Grossman, "Paradise Papers: Tycoon made $41m from 'people's fund'," BBC, 7 November 2017, www.bbc.co.uk/news/world-africa-41906123; Rafael Marques de Morais, "Stealing with Presidential Decrees," 14 March 2017, Maka Angola, www.makaangola.org/2017/03/stealing-with-presidential-decrees/. For further discussion on sovereign wealth fund governance risks, see: Jędrzej George Frynas, "Sovereign Wealth Funds and the Resource Curse: Resource Funds and Governance in Resource-Rich Countries," in The Oxford Handbook of Sovereign Wealth Funds (Oxford University Press, 2017), academic.oup.com/edited-volume/27969/chapter-abstract/211591533; Jodi Vittori and Lakshmi Kumar (eds), Sovereign Wealth Funds: Corruption and Other Governance Risks (Carnegie Endowment for International Peace, 2024), carnegieendowment.org/research/2024/06/sovereign-wealth-funds-corruption-illicit-finance-governance-risks.

94 The IMF recently stated that Uganda "has a relatively developed anti-corruption legal framework, yet enforcement is weak, due to the lack of independence of anti-corruption institutions, resources, coordination, and low morale. Whistleblower protections are ineffective, government data is not readily accessible, and civic space has been shrinking. Meanwhile, severe crackdown on anti-corruption dissenters prevents stakeholder participation in anti-corruption efforts. Judicial independence, integrity, and efficiency are weak. The backlog of cases is significant." IMF, Uganda: 2024 Article IV Consultation.

95 Uganda received a score of 59/100 for budget transparency, compared to the global average of 49/100, in 2023. International Budget Partnerships, "Open Budget Survey," visited 10 August 2024, internationalbudget.org/open-budget-survey/.

96 Uganda's most recent report is for 2021/2022. Uganda Extractive Industries Transparency Initiative, UGEITI Report for Fiscal Year 2021-22 (2024), www.ugeiti.org/eiti-reports/.

97 NRGI, "National Oil Company Database," last updated May 2024, www.nationaloilcompanydata.org/.

98 Andrea Furnaro and David Manley, Facing the Future: What National Oil Companies Say About the Energy Transition.

99 Thirty-two of the 55 NOCs covered by NRGI's Resource Governance Index in 2017 published their reports at the time of assessment. Several other NOCs have since started to disclose their annual reports. NRGI, "Resource Governance Index 2017," resourcegovernanceindex.org/.

100 EITI, "EITI Requirements," 12 June 2023, eiti.org/eiti-requirements.

101 NRGI, Guide to Extractive Sector State-Owned Enterprise Disclosures (2018), resourcegovernance.org/publications/guide-extractive-sector-state-owned-enterprise-disclosures.

102 For further discussion of the recommended NOC disclosures, see David Manley and Patrick R.P. Heller, Risky Bet: National Oil Companies in the Energy Transition; David Manley, Andrea Furnaro and Patrick R.P. Heller, Riskier Bets, Smaller Pockets: How National Oil Companies Are Spending Public Money Amid The Energy Transition; and Andrea Furnaro and David Manley, Facing the Future: What National Oil Companies Say About the Energy Transition.

103 Chile's trend GDP and reference copper price, both key inputs into decisions on annual government saving and spending, are determined by experts and corroborated by the Autonomous Fiscal Council, made up of five Senate-appointed academic economists (cfachile.cl/english). The projections are binding on the government. Germany's Working Party on Tax Revenue Estimates—consisting of five economic research institutes, three government agencies, the central bank, the German Council of Economic Experts, and local government—forecasts government revenues and publishes them. The government uses these forecasts for budget planning, www.bundesfinanzministerium.de/Content/EN/Standardartikel/Topics/Taxation/Articles/working-party-on-tax-revenue-estimates.html. In Canada, the government uses the average of private-sector forecasts as the basis for fiscal planning, www.canada.ca/en/department-finance/services/publications/economic-fiscal-snapshot/details-economic-fiscal-projections.html.

104 Requirement 5.3. EITI, "EITI Requirements," 12 June 2023, eiti.org/eiti-requirements.

About the authors

Paul Bagabo is the Uganda country manager at the Natural Resource Governance Institute (NRGI). Thomas Scurfield is an Africa senior economic analyst at NRGI.

Acknowledgements

The authors thank David Mihalyi from the World Bank for providing valuable perspectives and advice. They are also grateful to colleagues across NRGI, in particular, Amir Shafaie, Andrea Furnaro, Damilare Ogunmowo, David Manley, Denis Gyeyir, Fernanda Ballesteros, Nicola Woodroffe and Papa Daouda Diene for providing valuable support, as well as the fundraising and operations teams for making this report possible.

About NRGI

The Natural Resource Governance Institute is an independent, non-profit organization that supports informed, inclusive decision-making about natural resources and the energy transition. We partner with reformers in government and civil society to design and implement just policies based on evidence and the priorities of citizens in resource-rich developing countries. Learn more at **www.resourcegovernance.org**



Natural Resource Governance Institute