Emmanuel Tumusiime-Mutebile: Oil revenue management

Remarks by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the Oil Revenue Management Seminar, Kampala, 27 February 2012.

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Honorable Ministers,

Honorable Members of Parliament

Your Excellencies the Ambassadors

Ladies and Gentlemen

It is with great pleasure and that I welcome all of you to this important policy seminar on Oil Revenue Management, and especially those who have travelled from abroad, who include distinguished academics and experts from the petroleum and financial sectors. I would like express my gratitude to the Government of Norway and Stanbic Bank for sponsoring the seminar and to the African Economic Research Consortium for organizing it.

This seminar is motivated by the recent discovery of oil in commercially exploitable quantities along the Albertine Graben in Uganda; discoveries which have understandably raised public expectations as to the benefits which these resources may generate for Ugandans. Over the medium to long term, the public revenues from oil exports could provide Uganda with an unprecedented opportunity to step up the pace of its economic development, especially through investments to alleviate binding constraints to growth and structural transformation.

Managing the revenues generated by a non renewable resource, whose future value is highly uncertain, is a very complex challenge. It is a challenge which requires carefully crafted economic policies to guide the saving and investment of these revenues, short term macroeconomic management and public financial management, as well as the discipline to implement good policies in the face of strong incentives to do otherwise. The undoubted potential that the oil discovery holds for accelerated economic and social development in Uganda will only be realized if the revenues from oil are effectively managed.

Last October, Professor Paul Collier delivered the Bank of Uganda's Joseph Mubiru Memorial Lecture. In that lecture he gave us a salutary warning when he told us that: "the historical record of oil discoveries in poor countries is deeply worrying. Often oil leads to the curse of plunder: the few expropriating revenues that should benefit the many and the present generation unsustainably consuming revenues that should benefit the future. To avoid such a fate, this unprecedented opportunity requires distinctive and sometimes non obvious economic policy responses". We should take these words to heart. In this seminar, we are privileged again to have the opportunity to learn from the experience of Norway, a country which is acclaimed world wide as a success story in translating its natural resource endowments into social and economic benefits for its people in a sustainable manner. The success of Norway has been built on the foundation of effective revenue management, well-defined investment strategies, sound macroeconomic management, efficient public institutions with well-defined domains of responsibility, accountability and transparency, good governance and well-defined property rights.

I would like to highlight three issues which will be especially critical to the sound management of oil revenues in Uganda, and which I am sure will receive a lot of attention in this seminar.

First, the revenues accruing directly from oil are finite; our oil reserves will be eventually exhausted. This means that, if the oil revenues are consumed rather than being invested, living standards in Uganda may rise in the short term but this will not be sustainable. If the oil revenues are to be harnessed to generate a sustainable increase in living standards, a

substantial part of them must be invested outside the resource sector in physical, human and environmental capital, including education, health care, roads and railways. By saving and investing the revenues from its non renewable oil resources in an optimal manner, Uganda can expand its stock of capital and thus lay the foundations for higher output and improved living standards over the long term.

The optimal use of oil resources requires policymakers to reach often politically difficult decisions in response to questions such as: What is the appropriate balance between consuming and saving resources? And how quickly should the resources which are saved be invested in physical capital formation in Uganda? The answer to the latter question depends on the capacities of our economy to implement investment projects efficiently; capacities which are currently very weak, as is evident from the poor implementation record of many donor funded projects. There are pressing demands to invest more in infrastructure, especially in the transport and power sectors, but before we scale up public investment, we need to invest resources in strengthening our capacities to implement public capital projects; capacities for project evaluation, public procurement, project management, etc. If we ramp up public investment too quickly, at a rate which outstrips our implementation capacity, we risk wasting our precious resources on public projects which have very low or even negative rates of return.

The second issue which I want to highlight pertains to the potential for Dutch disease. The spending of oil revenues is likely to cause a real exchange rate appreciation, which could damage the competitiveness of the non oil traded goods sectors of the economy, including both exporters and manufacturing firms which compete with imports. The faster is the expansion of public spending out of oil revenues, the more disruptive will be the consequent Dutch disease impact. We must be very careful to try and avoid, as much as is possible, rendering our non oil traded goods industries economically unviable, because that would be very detrimental to long term growth and structural transformation. If Dutch disease drives up the costs of producing traded goods in Uganda, the competitiveness of traded goods industries can only be maintained if these industries can become more efficient, for example by raising the productivity of labour.

Thirdly, oil prices are inherently volatile. This poses acute problems for the short term management of fiscal policy. In particular the volatility of oil revenues often leads to procyclical public spending which amplifies the business cycle and thus destabilises the macroeconomy. To avoid this, it is necessary to de-link public spending from contemporaneous oil revenue receipts, in a manner which is consistent with long term fiscal sustainability. Again, this presents political challenges because of the need to maintain fiscal discipline during periods of above normal oil revenue receipts, when optimal fiscal policy dictates that Government budget balances should improve, but when pressures for more public spending will intensify.

Good public policy decisions are more likely to be taken and implemented if they are a product of well informed public policy debates; debates which involve public officials, the academic community, the business sector and civil society. I hope that this seminar, which includes participants from the Parliament, Government, the business sector, academia and civil society, will strengthen our understanding of the critical issues relevant for oil revenue management and will help to promote public debate about these issues.

Distinguished delegates, I would now like to invite the Honorable Minister of Finance, Planning and Economic Development to officially open this seminar.