

Researchers warn against high oil expectations



Business

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A Makerere University lecturer has warned that high expectations following the discovery of oil could be a recipe for disaster. Professor Augustus Nuwagaba argues that the high expectations towards oil production have made the entire venture “an economic time bomb”, and one that is bound to explode the moment the other players in the other sectors feel neglected.

Reacting to a research paper, “Oil discovery in Uganda: Managing expectations” by Lawrence Bategeka at a symposium at Makerere University, Nuwagaba said that “if the high expectations are poorly handled, it (oil production) can spell disaster rather than stimulating transformation.”

It is estimated that Uganda has the potential of producing 2 million barrels of oil, with the worth estimated at \$50 billion.

However, the manner in which revenue from this oil is expected to be shared between government and the investors prospecting for the black gold has been shrouded in secrecy. This has sparked an outcry.

For example, Bategeka’s paper points out that “(Bunyoro) Kingdom officials are complaining that the national oil and gas policy left out the Kingdom as one of the rightful direct beneficiaries of the oil wealth.”

Nuwagaba also warned that Uganda is likely to experience the Dutch Disease if the oil revenues are not well managed. Investopedia describes the Dutch Disease as “an economic condition that, in its broadest sense, refers to negative consequences arising from large increases to a country's income.”

Some of the impacts of the huge oil revenues could distort the country’s currency, which would affect the other sectors. For example, the increase in foreign currency reserves from the oil sector could see the shilling appreciate sharply, hurting export earnings.

“Uganda’s non-traditional exports like fish, flowers and casual labour contribute significantly to

our capital account but discovery of oil kills this diversification hence creating an economy that is prone to price fluctuations,” said Nuwagaba.

He said it was paramount that government found solutions in countries like Norway on how they have managed to control oil revenues for the benefit of every trader in the economy.

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