

The Capacity Building Programme for strengthening the State Petroleum Administration of the upstream petroleum sector in Uganda

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Arntzen de Besche Advokatfirma AS

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The report is presented in a series, compiled by Norad to disseminate and share analyses of development cooperation. The views and interpretations are those of the authors and do not necessarily represent those of the Norwegian Agency for Development Cooperation.

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REPORT

Mid Term Review of Project 0329

regarding

The Capacity Building Programme for
strengthening the State Petroleum Administration of the
upstream petroleum sector in Uganda

Prepared for



by



To Norad

We hereby present our report entitled:

“Mid Term Review of Project 0329 regarding The Capacity Building Programme for strengthening the State Petroleum Administration of the upstream petroleum sector in Uganda”

A draft report was submitted to Norad on 1 May 2008.

Hearing comments were thereafter received and have been considered. This final report has been adjusted as we have found appropriate.

Oslo, 14 August 2008
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ACRONYMS

AfDB	African Development Bank
EITI	Extractive Industries Transparency Initiative
MEMD	Ministry of Energy and Mineral Development
MFA	Norwegian Ministry of Foreign Affairs
MFPED	Uganda Ministry of Finance, Planning and Economic Development
MWE	Uganda Ministry of Water and Environment
NDNM	Norwegian Directorate for Nature Management
NEMA	Uganda National Environment Management Authority
NGO	Non-Governmental Organisation
NORAD	Norwegian Agency for Development Cooperation
NPD	Norwegian Petroleum Directorate
OECD	Organisation for Economic Co-operation and Development
PCC	Programme Coordinating Committee
PEPD	Uganda Petroleum Exploration and Production Department
Petrad	Norwegian International Programme for Administration and Environment
PSA	Production Sharing Agreement
UNDP	United Nations Development Programme
USTD	US Trade and Development Agency
UWA	Uganda Wildlife Authority

0 SUMMARY

0.1 Background

The Capacity Building Programme for strengthening the State petroleum administration of the upstream petroleum sector in Uganda was commenced in January 2006. The present Mid Term Review has been performed in the period February – April 2008.

After searches for petroleum in Uganda having been unsystematically and discontinuously undertaken since the 1920s, closer geological service and mapping were undertaken during the 1990s. The most prospective sedimentary basin to date is the Albertine Graben. This area is currently subdivided into exploration areas, of which five have been licensed to oil companies as from 1997 onwards. Wells drilled in 2006 and 2007 had confirmed the existence of a working petroleum system in the Albertine Graben. A development plan for pilot production in the Kaiso Tonya Area within the Northern Lake Albert Basin in 2009 is expected to be received by Ugandan authorities in the near future.

After Petrad had been involved in assisting the Petroleum Exploration and Production Department (PEPD), a department under the Ministry of Energy and Mineral Development, with competence building measures for more than ten years, the Agreement between the Government of the Kingdom of Norway and the Government of the Republic of Uganda of 6 December 2005 provided for a strengthening of the State administration of the upstream petroleum sector (“the Petroleum Component”) and to the planning of a capacity programme for the State administration of the electricity/energy sector (“the Electricity Component”). In an Addendum No. 1 of 5 December 2007 it was acknowledged that the Electricity Component was still only being implemented, whereas the Petroleum Component was increased. The Electricity Component is not part of this Mid Term Review.

The main objective of the Petroleum Component is an efficient state administration of the upstream petroleum sector, capable, in a sustainable manner, of planning, promoting and monitoring oil company investments in petroleum exploration and production, and managing state interests and revenues to the benefit of the economy and people of Uganda.

The Petroleum Component is organized in three projects:

- Project 1: Policy, legal and regulatory framework
- Project 2: Capacity building
- Project 3: Technical and economical studies

The basis for the present Mid Term Review has been interviews with relevant personnel in Uganda during a mission from 23 January – 1 February 2008, and with relevant personnel in Norway. Key Programme documents have further been available for the review. However, the applicable time frame has limited the opportunity for in-depth evaluations and review of detailed documentation.

0.2 Main review conclusions

The following are the main conclusions of the review:

- The Capacity Building Programme has generally contributed in a successful manner to strengthening the state petroleum administration of the upstream petroleum sector in Uganda. The Programme is in particular building competence and capacity within PEPD, and is increasingly aiming at obtaining involvement of and co-operation with other Ugandan institutions. The contributions of the Norwegian team to the Programme have generally been good. The further development of involvement of and co-operation with other Ugandan institutions involved in the petroleum activities, and capacity building within these institutions, should be a main objective in the continuation of the Programme.
- Focus on PEPD
The Programme is organized and concentrated around the PEPD. This is in part for historic reasons, and in part due to recognition that the PEPD, carrying the direct responsibility for the management of the upstream petroleum sector, had also been developed as best organized and suited for managing the Programme in Uganda. With its prior long term involvement in assisting the PEPD, Petrad knew the level of competence, dedication and capacity that the PEPD was likely to bring to the Programme.

Centering the Programme on the PEPD, and allowing the PEPD to manage the Programme, has proven to be a good solution. The capacity of PEPD has been strengthened. The institution maintains a high quality level in a wide area of petroleum management issues. PEPD has thus been developed to become a cornerstone in the State administration of the upstream petroleum sector, which generally fulfils - within its limits of capacity and responsibilities - the objective of being capable of planning, promoting and monitoring oil company investments in the petroleum exploration and production. Although being staffed to a large extent by personnel with geological, geophysical and other engineering background, the personnel has in addition to these areas developed competence within the areas of policy, legal and regulatory framework for petroleum sector of Uganda, economic matters etc. Compared to similar institutions in other countries in a similar commencement phase of petroleum activities, PEPD has a broad competence and represents a well established basis for the administrative management of the further petroleum development of the country.

The challenge ahead is to develop capacity and competence within the other government agencies that will be involved in petroleum activities (see next bullet point).

Although the personnel of PEPD has been able to lead the 3 projects with its quite wide range of issues, it is recommended to develop economists and lawyers with particular competence in the petroleum sector, and either

connecting them to PEPD or devoting such personnel in other administrative institutions to be directly involved in the next phases of the petroleum activities, including the Ministry of Finance, Planning and Economical Development and the Ministry of Justice (see separate bullet below on a possible reorganisation of the programme).

- Overall comments to the Projects 1-3

Important contributions to the preparation of a National Oil and Gas Policy were made under Project 1. However, the Cabinet's approval of the policy document was delayed with more than a year compared to expectation. The delay was outside the control of the Project. Certain activities have all the same taken place, including seminars and workshops with a number of stakeholder groups, and principles for new legislation have been developed. Several other activities related to developing new legislation were then set on hold awaiting this approval. The project time line did not take sufficiently into account the time aspect and procedural requirements related to Cabinet approval of principles before the drafting of a new Petroleum Law could commence. The preparation of the principles for the new law eventually submitted and approved by the Cabinet, provided good capacity building in preparation for the drafting of the law itself. However, irrespective of the postponement, informal preparatory work could have started on the same Project 1 activities.

Project 2 has generally advanced well, and the capacity of PEPD is gradually continuing to increase.

Project 3 concerns three studies, whereof one study on gas utilization in Uganda was drafted in 2006 but was discontinued since the present discoveries have shown the presence of oil.

- Horizontal co-operation between government agencies involved

Whereas the main focus of the programme has been on development of PEPD, there appears to be notable differences in petroleum competence within other government agencies involved in the management of the upstream sector. Although certain persons within management of some such agencies, such as the MFPED and NEMA, have demonstrated a very good understanding of the principle and current issues related to upstream petroleum management, there is a need now to strengthen the horizontal cooperation between other government agencies involved and capacity building within these agencies. PEPD has attempted to establish such cooperation, and to some extent this has been achieved. At the present stage there is, however, a need to increase the attention in these agencies of their need for involvement and capacity building in view of the upcoming pilot petroleum production project.

- A possible reorganisation of the programme

The focus on the PEPD to act as programme organizer - and on capacity and competence building at the PEPD - has on the whole been very successful. The

review team met a group of focused and capable directors at the PEPD. However, inasmuch as the programme seems to have strengthened the PEPD significantly, other parts of the Ugandan civil service charged with upstream petroleum or environmental responsibilities have received less attention from the programme. More is needed. To facilitate a broader coverage for the programme, it is recommended to involve other institutions more directly in the Programme, including the MFPED, MWE and NEMA.

In order to mirror the main pillars of the Norwegian programme elements and enable more rational lines of communication between the main ministries involved in Uganda and in Norway, respectively, it should be considered to divide the programme into three main categories; for 1) resource management, 2) environmental management and 3) revenue management, respectively. Each of the categories would have its own organisational structure; but all three should be within the overall management of the annual programme meeting and of the quarterly coordination meetings.

Projects within each category may then be coordinated directly between the ministries or agencies involved. The details to this effect should be discussed between NORAD, the Embassy and Ugandan authorities, although section 11.7 below contains more information on this proposal.

An amended organisational structure could then be implemented along the lines of the figure below:

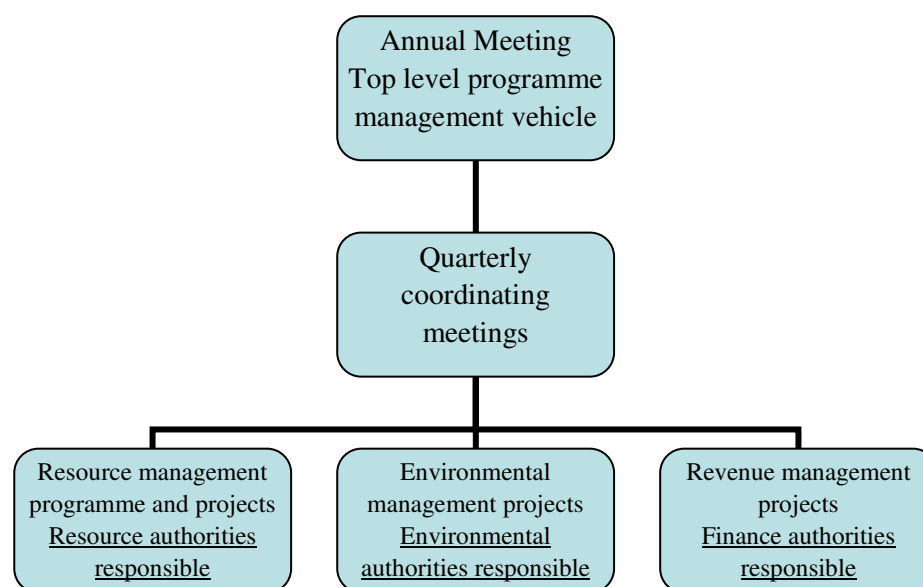


Figure: Principled reorganisation of Programme

- A comprehensive petroleum policy

As part of the Programme, Petrad has contributed to the development and preparation of the document “National Oil and Gas Policy for Uganda”. The document is comprehensive, covering most aspects of petroleum activities, is

in accordance with modern policy principles for this sector and gives basis for fulfilment of the main objective of the programme.

The policy document was prepared in the first quarter of 2007, largely through the efforts of the PEPD, and approved in January 2008. Due to the applicable governmental procedural rules with regard to commencement of preparation of new legislation, this process could unfortunately not be formally started before the Government had approved the policy document. Also, the Government has given priority to establishing ownership to the new petroleum policy both in the civil society as well in the various government institutions. This is important, and will take some time. The main efforts on drafting of new petroleum legislation have therefore only started at the end of 2007, while activities earlier on were required to fulfil formal legislative procedures not anticipated by the Programme. Against the background of the Government procedures and priorities, the delay appears therefore to have been well-founded. With hindsight, the Programme plan may also have been too ambitious in terms of schedule.

- Developing new legislation

The development of new petroleum legislation is recognised as a priority in Uganda. The Programme therefore has listed assistance for such development at the top of the list of projects. Since the national petroleum policy was approved in 2008 the work on the legislation – including both a Petroleum Act and Regulations – is behind the original schedule agreed for the Programme. . However, the legal advisory consultant has within this limitation arranged some in-depth seminars on legislative comparative and preparation issues, and assisted in drafting principles for amendments to the Petroleum (Exploration and Production) Act. These principles are fairly extensive in scope and lay the formal and material foundation for the development of any new Ugandan law. The approved principles do encompass rules and procedures for social and environmental impact assessments that ought to be in place ahead of the early oil production scheme expected from mid 2009. Since overall time is limited, the development of this new legislation has now become an urgent issue of major significance.

- Financial

The Programme Annual Report for 2007 shows that out of the approved amount of USD 1 878 000 for the original Programme and USD 1 398 100 for the Project Expansion, in total USD 3 276 100, the balance on the project at the year end was USD 1 752 604 when certain unpaid invoices and other commitments related to 2007 were taken into account. The expenditures during 2006 and 2007 were lower than approved (when taking into account the approved Programme expansion budget). One important reason for this can be the level of activities under Project 1 has been lower than the Programme defined activities prescribed. Availability of training programs and tutors has been another restricting factor.

We have not identified any general lacks in the financial control aspects of the project, but it is emphasised that we have had limited opportunity and documents available to undertake a thorough financial review.

Petrad made it a condition for its acting as Project Organizer, that a working capital of USD 150,000 would be available to it as an advance from the Project. The working capital is required by Petrad for supporting the practice of timely payments to the (mostly Norwegian) consultants, ahead of the funds transfers from the PEPD account in Uganda.

The working capital requirement appears to make economic sense, at least when seen from the point of view of Petrad. Petrad has no excess capital from which to draw reserves, and could not have provided such early payments without the advance of USD 150,000 from the Programme account.

Petrad is then aiming at invoicing PEPD quarterly in arrears. There appears to have been delays with regard to some invoices due to changes in Petrad's accounting system and accounting firm. For PEPD this brings a certain delay in their overview over expenses incurred under the Programme, which again gives a reduced basis for their planning of further activities.

The current cash management arrangement, which necessitates a working capital advance from the Programme to Petrad, is found to be unsatisfactory. It is recommended that a change is made to improve budgetary and expenditure control for the project management. One simple improvement could be for Petrad to submit invoices to the PEPD on a more frequent basis, e.g. monthly invoicing rather than the current quarterly invoicing. Another more fundamental change that should be considered would be shifting the responsibility of honouring invoices received from Norwegian consultants to the PEPD, reducing Petrad's responsibility w.r.t. invoicing to mere invoice forwarding.

We recommend that the programme coordinator reviews whether the delays experienced with invoicing are likely to recur, and if so, whether this is likely to cause any difficulties for the planning of activities. To the extent that such possible difficulties outweigh the benefits of the current cash management arrangement, then the Programme coordinator should explore ways of improving the situation, including whether the above-mentioned possible improvements or other changes, such as a new routine for financial project management based on commitments as they arise (as described under item 11.3 below, might augment the situation. In such case, the matter could be brought up with Norad, Petrad and the PEPD for resolution.

- The set up of the organization of the Norwegian project team appears satisfactory. The team consists of highly competent persons, and their contributions appear to have had high quality. The interaction with the PEPD employees has been good, and the coordination amongst the team members also appears to have been satisfactory. It is now, however, important that the team is engaged in the acceleration and expansion of activities as recommended here below. In relation to the Norwegian project team, the

Programme is designed as a demand driven project since Uganda has responsibility for the Programme implementation. Hence, the points addressed concerning progress of the Programme and vertical and horizontal communication between Ugandan institutions are primarily internal issues on which the Norwegian project team has limited impact.

- **Programme framework – progress**

It is our view that the Programme originally was too expansive in relation to the funds originally made available and the time frame of 3 years. However, the Programme Expansion approved at the end of 2007 provided sufficient funds in view of the remaining Programme period, even though the main cause of the Programme Expansion was the series of successful exploration activities and oil discoveries made and the early production plans scheduled for 2009.

Delays have, however, taken place, in particular in Project 1 due to circumstances outside the control of the Project. In view of the planned pilot oil production in 2009 there is a clear need for making amendments to the Petroleum (Exploration and Production) Act as well as adopting Petroleum Regulations in order to adequately manage such petroleum activities. Since the policy document now has been approved by Cabinet, it is recommended to accelerate the outstanding activities of Project 1.

The Programme objectives and content has in our view after the approval of the Programme Expansion generally been adequate at the present stage of building up a petroleum administrative function within the Uganda state administration. However, the exploration results give basis for an expectation of important petroleum activities in Uganda. In order to be able to meet such a challenge in the sector in a satisfactory manner, it should in our view now be a general priority to build capacity and procedures within the other state institutions than PEPD that will be involved. This will imply a widening of the scope of institutional targets, but will be necessary.

0.3 Programme prolongation

It will in our view not be possible to achieve neither a fulfilment of the existing Programme objectives nor the objectives for the recommended expansion of institutional capacity building within the third Programme year of 2008. This concerns in particular the objectives and the activities set for Project 1. We therefore recommend a prolongation of the Programme in order to achieve these objectives.

In the continuation of the project it is recommended to add the following elements in the programme:

- **Increase effort on environmental issues**

Environment has so far not been a prominent programme area. The license areas and the petroleum activities in Uganda take place, however, nature

protective areas on the eastern shore of Lake Albert. This area is a part of a biodiversity hotspot, with the variety of landscapes, eco systems and biological diversity. On this basis, PEPD has initiated a certain co-operation with NEMA, and representatives of the Norwegian Directorate for Nature Management has made a visit to the exploration areas and issued their report thereon. However, a broader capacity building effort in the area of environmental challenges in petroleum activities is recommended, in particular with NEMA and UWA, in particular since environmental sustainability is one of the main objectives for assistance by under the Norwegian Oil for Development initiative.

- Revenue management

Revenue management has not yet been a programme component. Since pilot oil production is expected in 2009, and some public revenues will stem therefrom, it is recommended to include revenue management as new element in the programme. Although the Ministry of Finance and the Bank of Uganda appear conscious of the need for a clear and transparent revenue management system, which arguably may already be in place for general tax revenues, world wide experiences from the major control and transparency challenges for petroleum revenue management give basis for an increased programme effort on this issue.

Under the approved National Oil and Gas Policy for Uganda on role of the Ministry of Finance is to ensure development and harmonization of accounting standards in oil and gas including Extractive Industry Transparency Initiative (EITI) principles. This should be followed up in co-operation with the EITI Secretariat in Oslo.

1 INTRODUCTION

1.1 The Uganda upstream petroleum sector

The factual background for The Capacity Building Programme is the following described main history of the Ugandan upstream petroleum sector:

Uganda's petroleum potential is manifested by numerous oil seeps in the Albertine Graben. Despite the fact that such rift environments are proven oil provinces in many parts of the world, Uganda's search for petroleum has been unsystematic and discontinuous since 1925.

The drilling of the Buitaba Waki-B1 well in late 1930's was the first attempt to investigate the subsurface. The well penetrated sandstones, shales and conglomerates. An oil shale at a depth of 1200m reported to contain some free oil was confirmation of the existence of source rocks responsible for the numerous oil seeps identified in the Albertine Graben. This shale was reported to have total organic carbon (TOC) of 6.0%. Waki-B1 well further provides evidence of reservoir rocks and possible seals.

The aeromagnetic surveys of 1983/84 and subsequent ground gravity and magnetic follow-up as well as detailed geological mapping have strengthened the evidence of the petroleum potential of the Graben. Source rocks, reservoir rocks and possible seals have been mapped and significant structures identified. Consequently Exploration Areas 2 and 3 have been licensed to Hardman Resources and Heritage Oil and Gas Limited, respectively. Energy Africa Ltd of South Africa is a joint venture partner in both Exploration Areas. Exploration Area 1 was licensed to Energy Africa Ltd. (Tullow Oil Group) and Heritage Oil and Gas Ltd. in July 2004.

The seismic surveys of 1998 and 2001 in Exploration Area 3, Semliki Basin have not only confirmed earlier observations but have properly defined structures and revealed the complexity of the geology of that area and possibly of the whole Graben.

Whereas the aeromagnetic data interpretation suggested basement depth of not more than 4000m, gravity and seismic data interpretation have refined this to about 6,000m.

The first well (Turaco – 1) in the Semliki Basin south of Lake Albert, proved the hydrocarbon potential of the basin. After drilling problems in the first well, the Turaco-2 well discovered hydrocarbons at two levels. Turaco-3 was subsequently drilled to test the zones. This is the first hydrocarbon discovery in the East African Rift and several companies are actively pursuing this new exploration opportunity.

In December 2004 Turaco-3 tested the upper level, which was found to be gas bearing. This zone is 350m thick with a net "pay" of 85m. The gas proved to be predominantly CO₂ with only 10-20 % hydrocarbons. The origin of the CO₂ is not certain, but is thought to be associated with volcanic activity in the area. Data from

other basins show that the CO₂ content may change both vertically and horizontally and that it is likely to be absent in other traps.

An overview over the license holders in the Albertine Graben area within Uganda and Democratic Republic of Congo is enclosed in Enclosure 2 herewith, and a map showing the same blocks is enclosed as Enclosure 3.

It is possible that further work will lead to long term commercial production of oil and gas. A development and production activity will put new regulatory demands on Government and revenue management will become an added challenge. Moreover, the commercialisation of natural gas will require active co-operation and facilitation by Government, both in the case of regional transport solutions and/or in developing a regional market.

1.2 Current institutional framework for petroleum exploration and development in Uganda

Uganda has established the Petroleum Exploration and Production Department (PEPD) as a well functioning regulatory body for petroleum promotion, licensing and exploration. PEPD operates as a department under the Ministry of Energy and Mineral Development (MEMD). The current licenses are held under Production Sharing Agreements (PSAs).

An organization chart of the Ministry of Energy and Development, including the PEPD, is attached as Enclosure 4.

PEPD has enjoyed co-operation with Norway on a variety of issues including exploration and licensing strategy, fiscal modelling, promotion, negotiations, activity monitoring, commercialisation of discoveries and revenue management. Most recently a workshop was held in PEPD on the organisation of the state petroleum administration. The work has been facilitated through a constructive effort by Petrad since 1995. Through Petrad, Norad has approved the use of funds for ad hoc seminars and short term consultancy to meet the urgent requirements of PEPD.

PEPD's main objectives have been defined to be contribution to the creation of value for society from petroleum activities by:

- 1st Initiating policy and legislation for petroleum exploration, development and production in Uganda
- 2nd Promoting petroleum exploration in the country through the acquisition of geo-scientific data and using these data to attract investment into petroleum exploration and development
- 3rd Participating in license negotiations and awards
- 4th Monitoring the activities of oil companies carrying out petroleum exploration, development and production in the country
- 5th Building national capacity in the upstream petroleum sub-sector

1.3 Complementing co-operation programmes

In the petroleum sub-sector there has been one project with GEUS of Denmark; assessment of the needs to establish an environmental laboratory in PEPD to analyse the effects of possible oil spills or pollution from petroleum activities. The project was financed from Danish trust funds with UNDP and apart from laboratory needs, the TOR included capacity building in terms of training courses for staff at PEPD. The purchase of proposed new equipment was not part of this activity. However, preparations for such procurement (elaboration of specifications and identification of possible donors) were included. The GEUS/UNDP project ended in 2005, before the commencement of the Norwegian Programme.

The effort to strengthen PEPD's capacity on environmental analysis and monitoring should be viewed as a positive complement to the proposed Norwegian co-operation. For this reason certain laboratory equipment including Extraction Apparatus and a Liquid Chromatograph were purchased with funds from the Norwegian Programme and installed at the PEPD. It is further proposed that the budget for the extended Norwegian Co-operation include a Gas Chromatograph, also to be used at the PEPD.

The UNDP financed activity will provide training and capacity building and ensure co-operation with the National Environment Management Authority (NEMA). NEMA has the responsibility of co-ordinating the various Government agencies within the area of protection and management of environmental resources, and is the lead government agency in oil spill planning and response.

Through this joint activity, PEPD will be able to cooperate with NEMA and other environmental agencies on issues affecting both the upstream and downstream petroleum activities.

2 SCOPE OF WORK OF THE MID TERM REVIEW

The following scope of work has been set for the present Mid Term Review:

- Review the technical progress and the efficiency of the petroleum assistance project, and the extent to which activities have been implemented in accordance with agreed work plans and the project objectives stated in the Agreement and the Contract. The petroleum assistance project includes the work contracted between the Embassy and Petrad.
- Review the financial progress of the Project and the extent to which the activities have been implemented in accordance with agreed plans and budgets.
- Review financial control aspects of the project; in particular the practice of Petrad requiring working capital from PEPD, and the financial and audit effects on the Project. The Consultant may propose changes to the financial arrangement as appropriate.
- Where possible assess which results have been achieved and which have not been achieved, and key reasons for achieving or not achieving results.
- Assess the relevance, as well as the quality of competence transfer, training, study tours, workshops and seminars aimed at strengthening the human resource capacity of the government ministries staff and others working with the petroleum sector. The need to develop a possible long-term training plan and its possible content should be considered.
- Assess whether the planned activities for the project period are relevant given the overall purpose of the project and whether PEPD and other Ugandan institutions included under the programme have the necessary human, physical and financial resources to carry out these activities within the project period.
- Assess whether the planned activities for the remaining project period can be implemented within the foreseen timeframe. If not, indicate the amount of time and/or financial resources needed to implement these activities, taking into account that they may be included in a possible continuation of the capacity building programme.
- Assess the set-up of the organisation of the Norwegian project team, how it functions within the PEPD, and within the other relevant Ugandan institutions. Special focus on interaction between the Norway team members and the local employees, and coordination amongst Norwegian team members located within different departments and organisations.
- Assess the level and quality of interaction between the PEPD and other Ugandan institutions directly affected by the programme or its activities/outputs, having in mind the cross-institutional aspects of the capacity building programme.
- Assess the level of coordination between different donors and donor countries in the petroleum sector, and the extent to which Ugandan requests for support from new entrants overlap with the capacity building programme.
- Briefly review the Project's emergency preparedness plans and Health & Safety issues relating to the Project staff. Make recommendations to possible further measures to be evaluated or implemented prior to a project extension.

3 THE CAPACITY BUILDING PROGRAMME

3.1 The agreements

The formal basis for The Capacity Building Programme is the following three agreements:

- 1) Agreement between the Government of the Kingdom of Norway and the Government of the Republic of Uganda regarding Strengthening the State Administration of the Upstream Petroleum Sector of 6 December 2005 (“the Programme Agreement”)
- 2) Addendum No. 1 to the above Agreement of 5 December 2007
- 3) Contract between the International Programme for Petroleum Administration and Management (Petrad) and Government of the Republic of Uganda represented by Ministry of Energy and Mineral Development, regarding Institutional Co-operation for the Strengthening of the State Administration of the Upstream Petroleum Sector in Uganda of 1 February 2006.

The agreements are enclosed as Enclosure 5.

The objective of the Petroleum Component is stated to be the following in the Programme Agreement/Addendum No. 1:

“The overall goal of the programme is an efficient state administration of the upstream petroleum sector, capable, in a sustainable manner, of planning, promoting and monitoring oil company investments in petroleum exploration and production, and managing state interests and revenues to the benefit of the economy and people of Uganda”

The purpose of the Programme is described as follows:

“The purpose of the programme is to strengthen the State petroleum administration in Uganda with regard to policy, institutional framework and administrative functions, to strengthen the planning and regulatory functions in PEPD and to study the conditions necessary for commercial development of oil and/or gas in Uganda.”

3.2 Programme Management

3.2.1 Responsibilities

Uganda is responsible for implementing the Programme (Article IV of the Programme Agreement). This includes to:

- Have the overall responsible for the planning, implementation, reporting and monitoring of the Programme,
- provide sufficient quality local personnel, and all financial and other resources that may be required over and above the grant and the contribution of external consultants, for the successful achievement of the defined outputs,
- ensure that the grant is used according to approved work plans and budgets,
- appoint Programme and Project Managers for the Petroleum Components to be responsible for the execution of agreed annual work plans and budgets and for reporting to the Annual Meeting,
- ensure that Programme funds, which shall include any accrued interests, are properly accounted for, and that the grant is reflected in the plans, budgets and accounting of Uganda.

Further, the Programme Agreement provides that Uganda should enter into a contract with Petrad for the implementation, coordination and quality insurance of the technical input to the Petroleum Component (Article 4 Clause 12). This is the agreement no. 3 in chapter 3.1 above.

3.2.2 Organization

The organization of the programme management is described as follows:

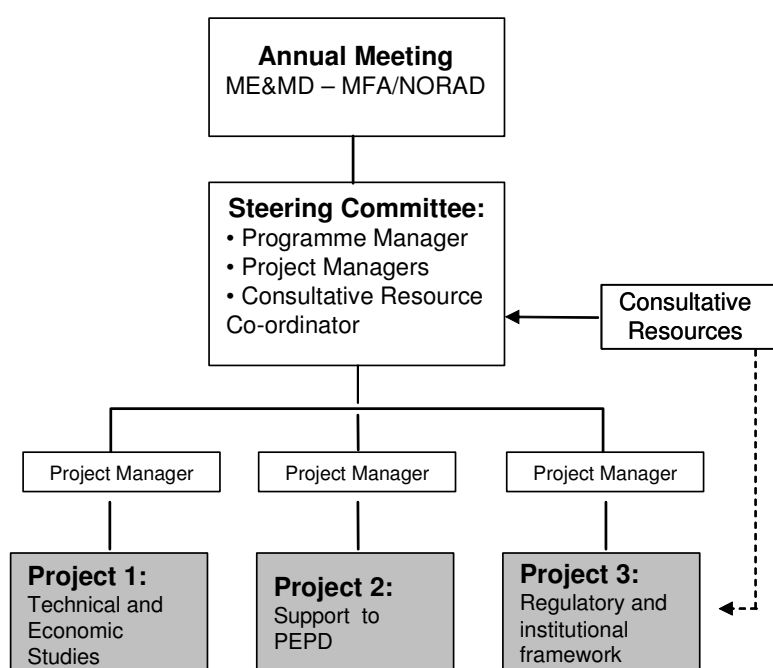


Figure: Present organisation of programme management

The formal requirements under the Contract for the programme management are mainly the following:

The highest authority of the Programme is the Annual Meeting between Uganda and Norway. The Annual Meeting shall be prepared, called and chaired by MEMD, and shall be held within the last quarter of each year in order to:

- Review progress, including results and fulfilment of agreed obligations,
- discuss and, if feasible, approve annual work plans and budgets
- discuss issues of special concern for the implementation, e.g. risk management.

Uganda is responsible for the planning, administration and implementation of the Programme tasks, including adherence to budgets and decisions of the parties to the Programme Agreement.

The Programme Manager is appointed by MEMD and should have a management or senior position. His/her responsibility shall be clearly defined and approved by the Parties.

One person shall be appointed by MEMD as Project Managers for each of the three Projects defined under the Programme.

A technical expert shall be appointed by PETRAD to act as a Consultative Resource Co-ordinator and adviser to the Programme. He/she shall work in a co-ordinating and advisory capacity and stay for periods as required in Uganda.

MEMD and PETRAD shall form a Programme Co-ordinating Committee (PCC), which shall be responsible for the execution of the agreed work programmes and shall report to the Annual Meeting. The PCC is headed by MEMD (Programme Manager). Other members of the committee shall include the Managers of the Projects and the Consultative Resource Co-ordinator.

The PCC shall:

- Prepare annual plan and budget to be submitted to the Annual Meeting
- Prepare reports to the Annual Meeting on progress and the use of funds
- Make corrective actions as necessary to carry out the Programme
- Co-ordinate the implementation of the Programme

The PCC shall meet quarterly or when deemed necessary by one of the parties. The PCC meeting are called with 2 weeks notice with agenda and documentation Minutes of the PCC meetings shall be submitted to MEMD, The Norwegian Embassy or PETRAD for information.

A PCC meeting shall be conducted a minimum of 4 weeks before the Annual Meeting each year to discuss the Programme experience the previous year and to agree upon a detailed Work Plan and Budget for the overall co-operation the following year.

The PCC shall further examine the extent to which implementation and the detailed Projects accounts held by MEMD and PETRAD adhere to approve Annual Work Plans and Budgets.

The PCC will seek advice as appropriate from other government institutions or stakeholders with regard to the Programme.

In the implementation of the Programme, including procurement of equipment and services, the Parties shall adhere strictly to the Annual Work Plans and Budgets approved by the Annual Meeting.

3.3 The Programme Projects

The Programme is divided in three main projects. The document “Part B – The Upstream Petroleum Sub-Sector” – being the programme detailing document for the original upstream petroleum programme – outlines project objectives, description of activities, specific output objectives and Norwegian in-put requirements. The components of these three projects were increased in the Addendum No. 1, and new objectives were added. We have therefore chosen to apply both documents as basis for our evaluation. The Project components are the following under Addendum No. 1:

1. Policy, Legal and Regulatory Framework

- a. Petroleum Policy, documented and submitted for approval by Government
- b. Updated Petroleum law, amended and submitted for approval by Government
- c. Updated Petroleum Regulations, amended and submitted for approval by Government
- d. Updated Model Production Sharing Agreement, amended and submitted for approval by Government
- e. Government institutions identified and established with responsibility for;
 - Petroleum Policy
 - Petroleum Legislation
 - Petroleum Regulations
 - Production Sharing Agreement (PSA)
 - Petroleum licensing
 - State equity participation (State Oil Co?)
 - Petroleum revenue collection
- f. A functioning regulatory and institutional regime established for HSE and an appropriate emergency preparedness plan developed and implemented.

- g. Identified scenarios for possible petroleum revenues, and an established understanding in Government for the possible tools and mechanisms to manage petroleum revenues.
- h. A new Revenue Management Law drafted and submitted for approval by Government.
- i. Officers trained and capable of performing the duties of the “new” institutions

2. Capacity building for PEPD

- a. An established definition of the resources required to fill the functions of PEPD and a plan outlined to develop these resources.
- b. A fully operational function established for management of the national petroleum data base.
- c. A new storage facility in the form of a modern data room setup.
- d. A fully operational function established for petroleum resource assessment.
- e. The petroleum potential and license opportunities in Uganda effectively communicated to the petroleum industry through promotion.
- f. A fully operational function established for the monitoring of oil company activities.
- g. Staff trained and capable of performing the tasks of PEPD.
- h. A fully operational laboratory established for environmental analyses and staff trained to operate it.
- i. An additional server computer will be procured as back-up to the one earlier procured.

3. Technical and Economic Studies

Government preparedness established for commercial petroleum development through

- a. Documented scenarios developed for gas utilisation in Uganda.
- b. Documentation established for the infrastructure required in case of commercial oil and gas development in the Albertine Graben.
- c. Documentation established for the scope and nature of the regional East African markets for oil and gas.
- d. Documented Evaluation and Advice on Plans for Development submitted to the Government.
- e. Documented set of actions to be implemented to meet the policy objective of maximising the national participation.

The following goal achievement indicators have then been defined as follows in the Addendum No. 1:

“The ultimate indicator of the goal fulfilled is the successful development of one or more oil and/or gas fields in Uganda and the translation of State revenues into economic development and

improved conditions for the people in Uganda. Timewise this is well beyond the current 3-year programme, since the lead-time from discovery until serious State revenues start to flow would be some 5-8 years.

The indicator of the Programme purpose fulfilled is that Uganda has established, and is able to execute, the key functions of government with regard to State administration of the upstream petroleum sector. Those functions which are not under the responsibility of the Exploration and Production Department shall have a defined institutional setting and clear organisational interaction shall exist between different institutions.”

3.4 The Programme expansion

The Programme was expanded by the Addendum No. 1 to the Programme Agreement on 5 December 2007 (see chapter 3.1). The description of the Programme projects under chapter 3.3. above is in accordance with the expanded Programme.

The Programme components added in the Addendum No. 1 included the following:

1. Policy, Legal and Regulatory Framework

- A new Revenue Management Law drafted and submitted for approval by Government.

2. Project 2 Capacity building for PEPD

- An additional server computer will be procured as back-up to the one earlier procured.

3. Project 3 Technical and economic studies

- Documented Evaluation and Advice on Plans for Development submitted to the Government.
- Documented set of actions to be implemented to meet the policy objective of maximising the national participation.

The total budget for the 3 years Programme was at the same time increased from USD 1,878,000 (NOK 12,205,373) to USD 3,276,100 (NOK 21,294,650), i.e. with USD 1,398,100 (NOK 9,089,277) (exchange rate 1 USD = 6.50 NOK) (see further chapter 4).

It is difficult to see from the documents available to us what the specific itemized basis for the budget increase was. It would have been desirable with a further explanation for the budget increase in the Addendum No. 1.

Under article VI of the Agreement the Annual Meeting should discuss plans and budgets, and would thereby have a mandate to make adjustments to the original

Programme. The work plans of the Programme have been approved by the Annual Meeting each year, including corrective actions found necessary by the Project Coordination Committee (PCC). Certain Programme component adjustments were approved, including upgrading of computer servers and a new data room.

4 OVERALL BUDGET

The overall Programme budget for each of the three years of the Programme duration is after the expansions provided in Addendum No. 1:

		Year 1	Year 2	Year 2 Expansion	Year 3	Year 3 Expansion	Total	%
I	Policy, Institutional and Legislative Framework	273,000	185,000	333,000	126,000	150,000	1,067,000	32
II	Capacity Building for PEPD	282,000	290,000	345,000	214,000	110,000	1,241,000	38
III	Technical and economic studies	36,000	37,000	175,000	15,000	75,000	338,000	10
IV	Petroleum programme management	80,000	75,000	60,000	75,000	23,000	313,000	10
V	Contingency/Budget Flexibility	70,000	70,000	91,300	50,000	35,800	317,100	10
	TOTAL BUDGET US\$	741,000	657,000	1,004,300	480,000	393,800	3,276,100	100
1)	TOTAL BUDGET NOK (1 US\$ ≈ NOK 6.5)	4,815,858	4,269,931	6,527,950	3,120,000	2,559,700	21,294,650	
2)	TOTAL BUDGET NOK (1 US\$ ≈ NOK 5.85)			5,872,580		2,302,720		

- 1) The rate of 1 USD = NOK 6.5 from Year 1.
- 2) The actual amounts in NOK according to the new exchange rate.

5 METHODOLOGY

5.1 Evaluation principles

The methodology basis for this Mid Term Review is the principles for such reviews as available on www.norad.no.

The aims of the evaluations process is in accordance with these principles:

- To evaluate the achievement of goals and results in relation to the original plans
- To evaluate whether the use of resources is commensurate with the results that are achieved
- To systematise the lessons learned in order to assure the quality of and improve future activities through good learning processes
- To provide information to the allocating authority and to the public at large

The evaluation process is designed to promote learning and gain experience from Norway's participation in international development cooperation and to hold the actors in Norwegian development policy administratively accountable. Individual evaluations may place different emphasis on these two aspects.

Some main criteria on which the evaluation should shed light, are the following:

Relevance: Is the activity relevant in relation to the goals and strategies of Norwegian development cooperation policy? Is the activity relevant in relation to the needs and priorities of the recipient country? Is it relevant to the development issue it is investigating?

Effectiveness: Have the primary goals of the activity been achieved? Have the planned results been achieved?

Sustainability: What is the long-term effect of the activity? Will it be possible to continue the activity after aid financing is no longer provided? Is there local ownership?

Efficiency: Can the investments and operating costs be justified? Could the same results have been achieved at a lesser expense?

Impact: Positive and negative, primary and secondary long-term impacts of activities, direct or indirect, intended or unintended.

These criteria represent the so-called DAC principles, developed by the Development Assistance Committee at the OECD.

The evaluation principles are the following:

Objective, verifiable and transparent: Evaluation must be based on actual statements; statements must be based on reliable data or observations. Relevant stakeholders in Norway or the recipient country must be consulted in connection with the preparation and implementation of evaluations, including the preparation of the description of the assignment and the discussion on the draft report.

Impartial: Evaluations must provide a balanced presentation of strengths and weakness. To the extent stakeholders have differing views, they must be included in the evaluation.

Independent: Members of the evaluation team must not have been personally involved in the activities that are to be evaluated. The agencies that carry out evaluations must not have been involved in the preparation or implementation of *activities*.

Consideration has also been given to the rules and guidance for evaluations given in the Norwegian's Rules for economic management within the State ("Reglement for økonomistyring i staten Kap. V om kontroll", in particular § 16), and the Guidance for the performance of evaluations ("Veileder til gjennomføring av evalueringer") issued by the Norwegian Ministry of Finance.

5.2 Implementation of the review

The review has been carried out by combining information from project documents and interviews with persons involved in the Programme as well as other persons deemed relevant for interviews for the purpose of the evaluation. This involves persons in the Uganda administration as well from the Norwegian administration.

Representatives from the following Uganda institutions have been interviewed:

- PEPD
- Ministry of Finance, planning and economic development
- Bank of Uganda
- Ministry of Water and environment
- National Environment Management Authority
- Uganda Wildlife Authority
- Occupational Health and Safety Department

The following programme responsible personnel within the PEPD:

- Programme Manager
 - Project Manager
- Policy, institutional and Legislative Framework:

- Project Manager
Capacity building for PEPD
- Project Manager
Technical and Economic studies

In Norway personnel from the following institutions and other persons have been interviewed:

- Petrad
- Simonsen law firm

Within Petrad the persons with the following Programme responsibilities were interviewed:

- Contract Responsible
- Consultative Resource Co-ordinator

The Norwegian Embassy in Kampala has been a key co-ordinating institution between the Norwegian sources and the Ugandan institutions involved, in particular the PEPD. We also interviewed representatives of the Embassy.

In addition, NORAD itself has been an important source of information for the review.

We have been informed that a Memorandum of Understanding (MOU) between the World Bank and Norad was signed in 2007, under which Norad has committed to contribute a certain sum toward World Bank petroleum related assistance projects. We have not seen this document, and have little information about the content, but have been informed that so far no concrete projects have been launched under this MoU.

6 PROJECT 1: POLICY, LEGAL AND REGULATORY FRAMEWORK

6.1 Overview

In this chapter 6 each of the components of Project 1 (see chapter 3.3) are evaluated.

The Project components with certain objectives are defined in Addendum No. 1. In the document “Part B – The Upstream Petroleum Sub-sector”, as further description of the Programme elements is given, with specifications of output and Norwegian co-operation input. This Document appears to have been a part of the original project documents and the parties have continued to relate to it. The descriptions of activities and objectives both in Addendum No. 1 and the “Part B” document are therefore referred to for the specific elements in this chapter 6, and both form basis for the evaluation.

It should be recalled that this review has taken place mid term in the Programme. Hence, it is not to be expected that all activities are complete at this point of time. However, the Mid Term Review may give basis for an evaluation of the implementation of the last part of the Programme period, and also for the definition of an extended programme if this is to be decided.

6.2 Petroleum policy

6.2.1 Objective

The general objective for this item is that a petroleum policy shall be documented and submitted for approval by Government (Addendum No. 1).

More specific description of activities and output requirements are given in the document “Part B. The Upstream Petroleum Sub-sector”. The evaluated specific progress of these components is given in chapter 6.2.3 below.

6.2.2 General evaluation

A petroleum policy should be the basis for the development of a legal and regulatory framework. It is therefore systematically correct to have this work component as a first priority. In terms of relevance such a document is a corner-stone for the activities.

However, the policy document had a long incubation time. It appears that this protracted development has adversely affected and partly stopped the progress of other subsequent activities. The causes for the delay are mainly to be found outside the Programme. In particular, other government institutions have taken time to take a position upon the draft policy. This has again caused a delay for approval by the Cabinet of the policy document. The Cabinet finally approved, however, the policy document during the first quarter of 2008.

The preparation of a draft policy document was undertaken in a good manner by PEPD and Petrad consultants (in particular Mr. Farouk al-Kasim).

The Programme plan for the policy document in 2006 was mainly held. In addition to the drafting of the Policy document, PEPD arranged two workshops with stakeholders (Government institutions) to incorporate the requirements of these sectors. Further discussions were also held with other stakeholders Government institutions.

Following conclusions of the preparation of a second draft of the policy document after consultations with stakeholders within and outside Government during 2006, it was recommended that consultations with stakeholders at the grassroots level in the districts within the Albertine Graben should be undertaken before the policy document should be submitted to the Cabinet.

Three such workshops were held in Hoima, Arua and Kasese in the second half of 2007.

The draft policy document was discussed with H. E. The President in September 2007, and he subsequently shared a workshop for Cabinet which reviewed the draft. A final draft policy was compiled after the respective stakeholder consultations and admitted to the Cabinet at the end of December 2007.

The National Oil and Gas Policy for Uganda is a solid and well developed document, covering more than 50 pages. It covers the legal and contractual frame conditions, the resource base, the main challenges for an oil and gas activity in Uganda, goals, guiding principles, objectives and strategies for the policy, impacts on other parts of the Ugandan society, the institutional framework, the financing issues and monitoring and evaluation issues. In our view the National Oil and Gas Policy for Uganda gives basis for a sound development of petroleum activities in Uganda as well as establishing competent administrative management capacity for handling such activities. This will, however, depend upon the ability to implement the policy in practice by Ugandan authorities.

We do not have sufficient basis to assess the specific reasons for the delayed progress in the process before a final version could be presented for Cabinet approval. It seems to be a question, however, whether PEPD could have advanced consultations with interested parties in quicker manner. On the other hand, it is important that a broad ownership both in the society as well as in government institutions is developed to such a policy. It may therefore be a more relevant question whether the Programme time frame was too ambitious on this point. Such an ambition may have been unfortunate, since one decided to let other activities (updating of legislation and PSA) be dependent upon the approval of the policy document. In the situation that arose, it is again questioned whether the best approach would have been to commence informal preparation of such other activities, irrespective of awaiting the formal cabinet approval of the policy document (see further chapter 6.3.2 et seq. below).

6.2.3 The specific activities

Programme	Achieved so far	Comment
The starting point for work on the legal and regulatory framework of petroleum operations is the definition of a petroleum policy. Such petroleum sector policies would be part of a broader national energy strategy	A national policy document has been prepared. The document was approved the week after the MTR delegation visited Uganda.	
<u>Output</u> The Programme should support the process of defining policies with regard to:	This item is completed.	The policy document had a long incubation time. It appears that this protracted development has adversely affected and paralysed the programme management causing significant delays in the execution of major elements of the programme.
<ul style="list-style-type: none"> ▪ National equity participation (revisited) 	“	
<ul style="list-style-type: none"> ▪ Exploration and licensing (revisited) 	“	
<ul style="list-style-type: none"> ▪ Health, safety and environment (revisited) 	“	
<ul style="list-style-type: none"> ▪ Development and depletion 	“	
<ul style="list-style-type: none"> ▪ Gas utilisation ▪ Other 		Not a particular part of the gas policy, since discoveries show focus on oil (see further Chapter 8.2)
<u>Norwegian co-operation input</u>		
<ul style="list-style-type: none"> ▪ Petroleum policy workshop 	Workshops held with sector ministers and cabinet to review draft policy	Delayed progress, which gave several knock-on effects for Project 1

<ul style="list-style-type: none"> ▪ HSE workshop 	<ul style="list-style-type: none"> ▪ Workshop for stakeholders in Government held in April 2007 ▪ Group of officials from environmental authorities on work visit to Norway in December 2007 	
<ul style="list-style-type: none"> ▪ Gas policy workshop 	This particular element has been cancelled. No longer part of the Programme.	Cancellation directed by Norway as a consequence of mainly oil discoveries

6.3 Updated Petroleum Law

6.3.1 Objective

The output objective is that an updated Petroleum Law with amendments should be submitted for approval by the Government.

The Petroleum (Exploration and Production) Act, Section 150 of the Laws of Uganda 2000, has worked well during promotion and exploration, but needs to be updated particularly when operations enter the development and production phases.

6.3.2 General evaluation

The Petroleum (Exploration and Production) Act, Section 150 of the Laws of Uganda 2000, is reported to have worked well during promotion and exploration of the petroleum activities, but needs to be updated in particular when operations enter into the development and production phases.

Under the applicable procedures for preparation and new laws in Uganda, Cabinet has to instruct the Ministry of Justice to undertake such a preparation. Since the process with the approval the new National Oil and Gas Policy was delayed, also an instruction from the Cabinet to commence such legislative preparation was also delayed. Hence, the progress on this activity has generally been weak.

As legal consultant, the Norwegian law firm Simonsen was engaged. An initial review of the Petroleum (Exploration and Production) Act, Section 150 of the law of Uganda 2000 was written in March 2006. A consultative workshop to introduce principles of petroleum law to stakeholders in the Government was arranged 6 – 7 September 2007. Simonsen thereafter arranged a capacity building workshop in Oslo, Norway in October 2007. The workshop focused on writing the principles to be submitted to the Cabinet for approval and thus laying the foundation for the development of a new Petroleum law. Simonsen is known to possess a broad experience and competence on this issue, giving a strong basis for such competence building.

A Working Group to formulate a new law has been formed and has held 5 working meetings.

However, specific drafting of new legislation only started following the Cabinet approval of the Principles late in 2007.

It can be questioned whether some informal drafting work all the same should have been undertaken. Such drafting would of course have been preliminary and not binding in any way for the legislative preparatory work by the Minister of Justice, but such informal drafts could still provided an input to and facilitated the formal legislative drafting when commenced. However, Ugandan personnel resources are scarce and there are formal procedural requirements on how the legislative process shall be performed. Without the principles approved by the Cabinet required release of Ugandan resources could not be obtained. Still informal preparatory work might have been commenced within the Norwegian team

In view of the probable upcoming early oil production scheme expected from mid 2009 there is clear need for having a modern and well developed petroleum legislation in order for the Ugandan authorities to manage and control this activity from an administrative point of view. A particular reason for this need is that the early oil production will take place in environmentally sensitive areas. Adequate legislation with regard to development plans and social and environmental impact assessments should therefore be in place in time. It is recommended that the Norwegian legal consultant is closely and timely involved in this process. However, the time normally needed for drafting detailed legislation, obtaining necessary Ministry approvals, and finally obtaining enactment by Parliament, implies that it may not be possible to have an amended Petroleum (Exploration and Production) Act enacted in time for the start-up of the early production.

It is in any case important to develop legal capacity within petroleum activities within the Ministries concerned. The legislative preparation process should be used for this purpose.

6.3.3 The specific activities

Programme	Achieved so far	Comment
A consultant should be engaged to:	Legal consultant is engaged	See chapter 6.3.2
▪ Identify areas to be amended	Legal principles issues discussed	
▪ Identify the interface to downstream legislation	Not completed	
▪ Run seminars and workshops to explain the	Seminar and workshops held	

process of amending the Act.		
<ul style="list-style-type: none"> Look at the effort made on harmonization of policies, legal- and fiscal regimes in the EAC Partner States 	Not reported	
<ul style="list-style-type: none"> The Ministry and the consultant should identify a team to work on the legislation. 	Work Group established	
<u>Activity Output</u> <ul style="list-style-type: none"> Identification of specific recommendations to improve the current Act 	Not yet produced	Informal drafting could have taken place.
<ul style="list-style-type: none"> A revised Draft Petroleum (Exploration and Production) Act. 	Not yet produced	Informal drafting could have taken place
<ul style="list-style-type: none"> Improved competence in MEMD and other government bodies on the petroleum legislation and fiscal matters. 	Only partially delivered, by the workshops	Further drafting on a new legislation in the Work Group, having representatives from several ministers, will give basis for improved competence. Close co-operation between the legal consultant and the other Work Group Members is recommended.
<u>Norwegian co-operation input</u>		
<ul style="list-style-type: none"> Legal consultant 	Has been provided; the law firm Simonsen	
<ul style="list-style-type: none"> Petroleum legislation workshop 	Workshops have been held	
<ul style="list-style-type: none"> 		
<ul style="list-style-type: none"> Legal/contractual harmonisation 	Not yet delivered to PEPD	
Training	Partially delivered	

6.4 Petroleum Regulations

6.4.1 The output objective is that updated petroleum regulations should be submitted for approval by the Government.

6.4.2 General evaluation

Petroleum Regulations can only be concluded when amendments to the Petroleum (Exploration and Production) Act has been drafted. Since the latter draft work has not been commenced, it is our understanding that no work on drafting Petroleum Regulations has been undertaken. Reference is made to the comments under chapter 5.2 above.

Whereas the key policy provisions will be included in the Petroleum Act, the more detailed regulatory provisions will be expressed in petroleum regulations. In order to direct the available legal resources towards the areas of petroleum operations where further regulations are most important, a legal strategy should be established as an initial activity.

6.4.3 The specific activities

Programme	Achieved so far	Comment
Whereas the key policy provisions will be included in the Petroleum Act, the more detailed regulatory provision will be expressed in petroleum regulations. In order to direct the available legal resources towards the areas of petroleum operations where further regulations are most important, a legal strategy should be established as an initial activity.	Not yet produced	A legal strategy document outlining issues both for the petroleum (Exploration and Production Act) and for the Petroleum Regulations could have been prepared (subject to possible adjustments for the final policy document, although such adjustments would not be probable).
Legal strategy issues: <ul style="list-style-type: none">▪ Priority areas for regulations – schedule for regulatory work.▪ The interface between regulations and petroleum contracts▪ The use of international or regional standards▪ System regulations needed to facilitate the implementation of the	Not yet produced	Could have been prepared irrespective of outstanding policy document “ “ “

<p>control regime</p> <p>Technical guidelines should be worked out for priority areas, within the resources available under the Programme.</p> <p><u>Downstream regulations</u></p> <p>The Programme shall undertake to examine the adequacy of the existing regulations for downstream liquid fuel refining, transportation and distribution. The Programme shall also study the need to further regulate transmission and distribution of natural gas, and propose regulatory strategies in these areas.</p> <p><u>Legal and regulatory harmonisation</u></p> <p>The Programme shall contribute to the effort to harmonise regulations, which is ongoing in the EAC Partner States.</p>	<p>Not yet produced</p>	<p>In our view this task concerning downstream regulations should have low priority, since the expected pilot production necessitates upstream regulations as a first priority. It should be considered to delete this downstream item from the Programme, which is focused on upstream matters.</p> <p>We have not seen any contribution documents or other substantiation of such contribution.</p>
<p><u>Outputs</u></p> <ul style="list-style-type: none"> ▪ A strategy for development of petroleum upstream regulations ▪ Necessary regulations for petroleum production phases under the Petroleum Act ▪ Regulations as required for downstream petroleum operations ▪ Contribution to the harmonisation of 	<ul style="list-style-type: none"> ▪ Not yet produced ▪ Not yet produced ▪ Not yet produced ▪ Not yet produced 	<p>We understand that the legal consultant, Simonsen, would be ready at short notice to provide significant input on this item.</p>

petroleum legislation in the region		
<u>Norwegian co-operation input</u>		
<ul style="list-style-type: none"> ▪ Legal strategy workshop ▪ Support to drafting upstream regulations ▪ Input to harmonisation 	<ul style="list-style-type: none"> ▪ Has taken place ▪ Not yet delivered ▪ Not yet delivered 	

6.5 Model PSA

6.5.1 Objective

The objective is that an updated Model Production Sharing Agreement should be prepared, amended and submitted for approval by the Government.

6.5.2 General evaluation

The work for the review and amendment of the Model PSA has not been advanced. It is our understanding that the reason is that one is awaiting the new legislation, (which again has awaited the approval of the National Oil and Gas Policy)

With regard to developing capability within MEMD to adjust fiscal and other terms appropriate in the future, it is our understanding that the general capacity building within PEPD has clearly increased the competence within petroleum economics as well as of fiscal and other government take terms. However, more specific capacity building within PSA terms, and in various production sharing models, should be pursued.

It can be questioned why the PSA work has been delayed. Several parts of the PSA are quite independent of legislation, e.g. normally the production sharing model. Some preliminary work on certain elements of the PSA, in particular the economic production sharing parameters, could have been commenced, although it would be of course be necessary thereafter, when the formal legislation has been enacted, to adapt and harmonize the whole PSA accordingly.

The 2006 model PSA provides for production sharing on the basis of daily production volume. This model does not provide for the Government to capture economic rent as a consequence of higher prices, and cannot be regarded as being in accordance with the interests of the host country. The enormous increase in oil prices during the last 5 years have fully demonstrated the need for production sharing models that adequately protects the interests of the host country by securing the economic rent for the country. By economic rent is meant the profits of an investment that remain after deducting that income for the oil company which corresponds to return necessary to a tract investment to the project in the first place. In other words, the economic rent should be for the benefit of the host nation owning

the petroleum resources, and not the oil companies, which should only be secured the fair return on their investments. We are not aware of the PSA terms that were applied for the latest license award in Block 4B. It is in our view unfortunate, however, if the model PSA terms were applied also for that license, and not a modern production sharing model protecting the economic rate rent for the state.

Although no further license awards are foreseen for the time being, it is still recommendable that the work on developing a new model PSA is undertaken both in order to be prepared for any new license awards as well for developing competence for application of the existing PSAs.

6.5.3 The specific activities

The Programme should analyse whether the format of the existing Model Production Sharing Agreement, PSA, is appropriate under the revised Petroleum Act, and whether part of the present contract terms can be built into the proposed regulations.

To ease the negotiations process and to facilitate the supervision of the activities under the different active contracts, it may be recommendable to limit the number of negotiable items compared to the existing PSA. If a revision is needed, the programme should contribute to the drafting of an amended Model PSA.

<u>Outputs</u> A reviewed and amended Model PSA and capability in MEMD to adjust fiscal and other terms as appropriate in the future.	Not yet developed	
<u>Norwegian co-operation input</u>		
<ul style="list-style-type: none"> Review of existing Model PSA 	Financial aspects discussed in workshops. Legal aspects to be addressed	Could have been further developed as preliminary input to final PSA drafting after the enactment of amended legislation.
<ul style="list-style-type: none"> Support to Model PSA amendment 	Not yet delivered	Could have been commenced
<ul style="list-style-type: none"> Training 	Not yet provided	It is our understanding that the workshops held did not address PSAs, but legislation

6.6 Organizing the State Petroleum Administration

6.6.1 Objective

Government institutions should be identified and established with responsibility for:

- Petroleum Policy
- Petroleum Legislation
- Petroleum Regulations
- Production Sharing Agreement (PSA)
- Petroleum licensing
- State equity participation (State Oil Co?)
- Petroleum revenue collection

6.6.2 General evaluation

The roles of the main state institutions in petroleum activities are defined in the National Oil and Gas Policy for Uganda. Its chapter 7 regulates “Institutional Framework”. The document defines the roles of the following institutions:

- Parliament
- Cabinet
- MEMD, through PEPD
- A New Petroleum Authority of Uganda
- A National Oil Company
- Ministry responsible for Justice and Constitutional Affairs
- Ministry responsible for Finance, Planning and Economic Development
- Ministry responsible for Local Governments
- Ministry responsible for Works and Transport
- Ministry responsible for Water and Environment
- Ministry responsible for Forest and Wetlands
- Ministry responsible for Tourism and Wildlife
- Ministry responsible for Labour
- Ministry responsible for Education
- Ministry responsible for Industry
- Ministry responsible for Physical Planning
- Ministry responsible for Security
- Bank of Uganda
- Uganda Revenue Authority
- National Planning Authority
- NEMA
- UW
- Auditor General
- Civil Society

In our view the above definition of the roles are generally good. It includes those institutions that are most relevant for being involved in petroleum activities, and defines the important area of responsibility.

The challenge will then be firstly to implement the roles to ensure that the various institutions take their responsibilities in practise, and secondly to build up capacity within these institutions in order to be able to undertake these tasks.

In our meeting with various Ministries and other institutions, their representatives gave various understanding as to the roles and responsibilities they were allocated under the National Oil and Gas Policy for Uganda. This may be due to the late approval of the policy. Still, it appears clear that there is in general a large need for creating understanding and ownership for these various roles and responsibilities within the institutions concerned. Further, capacity building within the petroleum sector will be needed.

6.6.3 The specific activities

The following description of activities is given:

A new mandate, vision and mission is required for PEPD in order to govern and administer the development and production phases. The new structure will among others include responsibilities for approval of development plans and state participation, collection of royalty and production share, approval of abandonment plans.

The Programme should identify the functions of Government as reflected in the current petroleum policy and as required under Ugandan law. It should further define realistic scope and content of the functions with regard to available resources in Uganda.

The Programme should evaluate the current structure of the Ministry and specifically the roles of PEPD vis a vis the future needs during development and production. The evaluation should be made with reference to institutional set up in other countries and include recommendations with regard to the possible need to establish a National Oil Company, a Petroleum Authority, a Petroleum Directorate or other, as proposed in the National Oil and Gas Policy.

We have not seen any formulated mandate, vision and mission for PEPD outside the roles defined in the National Oil and Gas Policy. Therein, the main tasks and thus the main role of PEPD is defined in another manner. Our observation of the processes within PEPD have confirmed that PEPD is well aware of its responsibilities and organising itself to be able to handle this. We have also been informed that:

“The current structure of the Ministry is being evaluated and new institutions (Directorate, Authority and National Oil Company) are being proposed in accordance with the Oil and Gas Policy. A transitional arrangement is being worked out until the requisite legislation is in place to formalize these institutions.”

Our comments to the specific outputs defined are the following:

<u>Output</u>	<u>Achieved so far</u>	<u>Comment</u>
Recommendations should be specific and include <ul style="list-style-type: none"> ▪ Job description ▪ Number of people required ▪ Remuneration required ▪ Administrative tools required 	Generally made for PEPD, but not for the other institutions	These documents are important for PEPD, but it can be a lower priority to prepare this for the other institutions mentioned, since their establishment and functions are further in the future.
<u>Norwegian co-operation input</u>		
<ul style="list-style-type: none"> ▪ Document required functions of government 	Policy document contribution made	
<ul style="list-style-type: none"> ▪ Support the establishment of appropriate institutions 	Made through Project 2	
<ul style="list-style-type: none"> ▪ Prepare detailed plans for institutional strengthening 	“	
<ul style="list-style-type: none"> ▪ Training 	“	

6.7 Health, safety and environment

6.7.1 Objective

The general objective is that a functioning regulatory and institutional regime established for HSE and an appropriate emergency preparedness plan should be developed and implemented.

The background is that petroleum activities in Uganda take place in a unique natural environment that is important both to Uganda and as a world heritage. Petroleum activities must be conducted in a manner that protects people's lives and health and do not harm the environment.

6.7.2 General evaluation

A workshop for stakeholders in the Government to review needs and define a way forward for HSE issues in the petroleum sector was held in April 2007. Further, a group of officials from environmental authorities in Uganda undertook a working visit to Norway in December 2007 with meetings with Norwegian environmental authorities.

A representative from the Norwegian Directorate for Nature Management made a visit to the oil exploration fields in the vicinity of Lake Albert in November 2007, and has issued a report concerning oil activities in these environmentally sensitive areas.

It appears to us that more activities have been undertaken on the environmental area than within the areas of health and safety. We emphasise the importance that the stakeholders should be prepared within all the three HSE areas when pilot oil production starts.

It is our view that NEMA and UWA have a general understanding of the challenges connected with petroleum activities. On the other hand the Ministry of Water and Environment demonstrated in our meeting no knowledge at all about the petroleum activities. It is recommended that the co-operation between PEPD on the one hand and the Ministry of Water and Environment, NEMA, Water Resources Management Directorate, Occupational Health and Safety Department and UWA is increased. Further learning about petroleum activities within these institutions is important. Capacity building for key persons to be responsible for the petroleum activities within these institutions should also be pursued.

Such a co-operation and capacity building with other institutions has been an objective of and effort under the Programme, but we propose in the continuation of the Programme that further responsibilities should be placed on these institutions for an increased effect. We refer to the oil and gas policy in this respect, and can only recommend that the HSE areas, the authorities and institutions responsible and the horizontal as well as vertical co-operation become focal areas of the Programme to an even greater degree than it has been so far.

6.7.3 The specific activities

Programme	Achieved so far	Comment
The Programme should define the over-all objectives and priorities for the management of safety and environment and develop adequate technical regulations in pursuance of the Petroleum Act. The Programme should further assist in the development of		

<p>supervisory methods and improve qualifications of government staff for exercising the supervisory duties efficiently</p> <p>Activities under the Programme should include</p> <ul style="list-style-type: none"> ▪ Seminars/workshops for personnel with key functions related to safety and environment functions ▪ Conducting and assessing Environment Impact Analyses (EIAs) ▪ Outlining a national Emergency preparedness plan 	<p>Seminars arranged in Uganda and Norway</p> <p>Not yet complete</p> <p>Not yet complete</p>	<p>Should be a priority in the Programme continuation – could be done even without final amendments to the Petroleum Act</p>
<p><u>Output</u></p>		
<ul style="list-style-type: none"> ▪ A system for supervision which reflects the institutional model selected by Uganda and the basic principles of self-regulation (internal control) 	<p>Not complete</p>	
<ul style="list-style-type: none"> ▪ Improved qualifications for exercising the supervisory duties 	<p>Seminars held</p>	
<ul style="list-style-type: none"> ▪ Compilation of the EIAs performed by the oil companies into an environmental assessment with regard to petroleum developments in the Albertine Graben 	<p>Not documented to us</p>	

<ul style="list-style-type: none"> Outline for a national emergency preparedness plan 	Not complete	
<u>Norwegian co-operation input</u>		
<ul style="list-style-type: none"> HS&E strategy 	Addressed in seminars	
<ul style="list-style-type: none"> Government HS&E supervision 	“	
<ul style="list-style-type: none"> Environmental impact analysis 	“	
<ul style="list-style-type: none"> Emergency Preparedness Plan 	“	
<ul style="list-style-type: none"> Training 	“	

6.8 Revenue Management

6.8.1 Objective

The general objective is to establish identify scenarios for possible petroleum revenues, and an established understanding in Government for the possible tools and mechanisms to manage petroleum revenues.

The discovery of petroleum resources represents increased national wealth that accrues to Government. The revenue may accrue in foreign currency but is most often spent in the domestic economy, which will be much affected. The increased wealth must be spent in order to generate utility for the country. However, petroleum revenues are by nature temporary and must be spent with caution.

6.8.2 General evaluation

In our meetings with representatives of the Ministry of Finance, Planning and Economic Development and the Bank of Uganda competence on revenue management issues in general was demonstrated. The representatives were also generally aware of challenges in connection with revenue management from the petroleum sector. However, specific plans and procedures for state management or revenues from the petroleum sector have not yet been prepared. Further, we did not see any modelling of possible revenue streams to give basis for planning an appropriate revenue management.

The representatives of the Ministry of Finance, Planning and Economic Development and the Bank of Uganda also expressed a priority for transparency requirements. We have not received, however, any transparency procedures, and not seen otherwise the documented transparency measures taken. We are therefore not in a position to evaluate the degree of transparency to be applied to the management of the petroleum sector.

We recommend that transparency is made an explicit Programme component. This should be done in connection with revenue management, but it should also be an issuing connection with other Programme components, hereunder the regulatory framework. It should therefore be considered whether transparency should be a separate programme component or included as an element in the relevant existing Programme components.

6.8.3

6.8.4 The specific activities

Programme	Achieved so far	Comment
<u>Output</u> The Programme should model possible revenue streams and review appropriate measures to manage revenues for the benefit of today's economy and future generations.	Not yet implemented. However, a seminar on revenue management, with representatives from the Norwegian Ministry of Finance included, has been arranged.	
<u>Norwegian co-operation input</u>	“	
▪ Revenue modelling	“	
▪ Revenue management workshop	“	This workshop was held with funding from the African Development Bank, and the coordinated by the Norwegian Embassy in Kampala and the Norad Oil for Development programme.
▪ Training	“	

6.9 New Revenue Management Law

6.9.1 Objective

The general objective is that a new Revenue Management Law should be drafted and submitted for approval by the Government.

This Programme component was included in the Programme expansion subsequent to a desire from Uganda.

6.9.2 Evaluation

We have been informed of regular meetings on revenue management issues attended by representatives of the MFPED, URA, BoU, PEPD and possibly others. No further activity on this Programme component has been reported to us.

Since such a Revenue Management Law will be of general applicable ability in Uganda, a law preparation will probably imply a broad process. In terms for priority, it is recommended that amendments to the petroleum (Exploration and Production) Act is drafted before a drafting of a Revenue Management Law. We assume that a Revenue Management Law must be general in relation to all state revenues. This implies that a drafting process will involve several non-petroleum institutions. This drafting has thus a quite different scope than the other parts of the Programme.

It is clear that a Revenue Management Law can be an important instrument to achieve transparency in all state revenue management, also in a management of revenues from the petroleum sector. Since transparency is a basic and necessary requirement in order that the fundamental principle that the petroleum wealth should be for the benefit of all Ugandan people, such a Law can be an instrument of major significance for this purpose.

However, since the drafting of such a Law has such a different character from the other elements of the Programme, it should be considered whether this element should be a part of the present Programme, and if so, how this should be organized. The Ministry of Finance, Planning and Economic Development should in such a case be the institution primarily responsible on the Ugandan side, and it should therefore be evaluated whether a separate organization of this Programme item should be established, possibly outside the PEPD or with this institution in less central role. It is recognised that such a reorganisation may most properly take place after the Programme itself is de-centralised along the lines of the proposal currently being discussed, see item 11.7 below. The logical time for such a change may in any case be at the inception of the next programme phase.

If this Programme component is maintained, one should consider whether an informal drafting process could be commenced even before a Cabinet instruction for legislative preparation is issued.

6.10 Training and advisory services for new state institutions

6.10.1 Objective

The general objective is that officers should be trained and become capable of performing their duties under the “new” institutions.

The background is that certain government functions relating to petroleum sector management will be placed outside PEPD. Key policy and licensing functions are held by MEMD and it is envisaged that rent collection and revenue management may be the responsibility of other state bodies.

6.10.2 General evaluation

Except for the participation of some officers from relevant institutions participating in certain seminars and workshops, we have not seen a specific plan and training programme for relevant officers. It is recommended that the key personnel in the relevant institutions are identified, and that specific appropriate training programmes for this personnel is implemented.

Programme	Achieved so far	Comment
<u>Output</u>		
The programme should provide for the necessary training for such other government bodies.	Commenced	Specified relevant training programmes for identified personnel should be established
<u>Norwegian co-operation input</u>		
▪ Workshops/training	Some workshops held, seminar attendance	
▪ Advisory services		

7 PROJECT 2: CAPACITY BUILDING FOR PEPD

7.1 General objectives

The general overall objective for Project 2 is to strengthen PEPD to efficiently carry out its roles and functions in petroleum planning and administration.

This strengthening objective should be directed towards the mandate that PEPD has. The Petroleum (Exploration and Production) Act, Section 150 of the Laws of Uganda 2000, mandates PEPD to carry out duties related to exploration and development. Currently, this mandate includes;

- Initiating policy and strategy for exploration and development;
- Data interpretation and resource assessment
- Promoting petroleum exploration
- Participating in license negotiations and awards
- Monitoring and regulating petroleum exploration operations
- National capacity building in exploration and production disciplines

7.2 Assessment of institutional capacity and training needs

7.2.1 Objective

The first output objective under Project 2 is “An established definition of the resources required to fill the functions of PEPD and their plan outlined to develop these resources”.

The planning and regulatory functions of PEPD requires highly specialized skills and sophisticated management tools. A programme to strengthen institutional capacity should be preceded by a diagnostic process that defines the required functions and capacities and identifies the shortcomings.

The diagnostic process will identify tasks and functions for which internal capacity must be developed and tasks that could be outsourced. It will also consider the timing element for developing national capacity and the possible need for interim external support. The assessment shall identify performance requirements and the gap between “what is” and “what ought to be”.

The diagnostic assessment will form the basis for defining appropriate training programmes for PEPD. The assessment should also address the broader administrative capacity of the Ministry in managing petroleum functions.

7.2.2 General comment

Within the limits of its organization, PEPD holds a high competence within the main areas of petroleum management, in particular those tasks that fall under PEPD as a department within the MEMD. PEPD’s management group is central in the

development of the activities. There is a high work load on this management team, and they lay down a high work effort.

Further recruitment of competent resources and further capacity building is important to strengthen the PEPD to come in a position to carry out even more efficiently its roles and functions in petroleum planning and administration, as well as meeting the requirements of development and production phases in the petroleum activities. When the oil companies increase their activities in Uganda, PEPD will be vulnerable to recruitment from oil companies, as is the case for petroleum administrative institutions in most countries. It is therefore important to develop long term human resource programmes for PEPD.

7.2.3 The specific activities

<u>Output</u>		
<p>The diagnostic assessment is an exercise performed with the key staff of PEPD. Output shall consist of clear recommendations including</p> <ul style="list-style-type: none"> ▪ Organisational considerations ▪ Required activities and functions ▪ Human and material resources required ▪ Programme for training and education ▪ Use of external resources ▪ Sustainability, including manpower retention 	<p>A workshop on a functional analysis and training needs assessment was held on 13 March 2007, facilitated by Norwegian consultants from the Bridge Group. The relevant institutions were present. Consensus on a road map was established.</p>	<p>We have not seen written documents from the outcome of the workshop, but the road map appears to represent a good basis for the further institutional capacity building.</p>
<u>Norwegian co-operation input</u>		
<ul style="list-style-type: none"> ▪ Diagnostic analysis 	Not yet complete	We have not seen an analysis document
<ul style="list-style-type: none"> ▪ Plan for training and organisation strengthening 	Not yet complete	We have not seen a plan

7.3 Data management

7.3.1 Objective

The output objective is “a fully operational function established for management of the national petroleum database”.

7.3.2 The specific activities

Programme	Achieved so far	Comment
<p>The data management activity should establish an archive system and guidelines for data reporting from the operators in order to ensure consistent reporting of data. The main element of the system will be an archive system for storage and retrieval.</p> <p>The activity should establish standard formats and storage mediums for digital data and guidelines for reporting new data. If necessary existing data should be reformatted and incorporated in a new archive system.</p> <p>A cost data base should be established to facilitate government control of costs incurred by contractors. Such data bases may be purchased based on specifications identified under this activity</p>	<p>Regional seminar on data management tools was organized by Petrad in Kampala from 22 – 26 October 2007, with participants also from other African countries. A new seminar was held in 2008.</p> <p>It is further noted that an updating of the office computer system with a procurement of additional computer service has taken place. Several other computer facilitation measures have been undertaken.</p>	<p>We do not have basis to conclude that a fully operational function for the management of the national petroleum database has been established. This task is thus at present incomplete.</p>
Output		
<p>Output from this activity should be</p> <ul style="list-style-type: none"> ▪ A data management workshop ▪ A data management system ▪ A populated data base consisting of all data considered of interest ▪ Structure and specifications of a 	<p>Has been held</p> <p>Not yet completed</p> <p>“</p> <p>“</p>	<p>Outside the updating of the office computer system it appears that development of these system and data basis have not yet advanced due to stretched resources in PEPD.</p>

<ul style="list-style-type: none"> cost data base ▪ A populated cost database with the most used cost elements in exploration, development and operation ▪ Training of staff to operate the data base 	“	
<u>Norwegian co-operation input</u>		
<ul style="list-style-type: none"> ▪ Establish data management system 	Not yet completed	
<ul style="list-style-type: none"> ▪ Establish or purchase a cost data base 	“	
<ul style="list-style-type: none"> ▪ Converting data 	“	
<ul style="list-style-type: none"> ▪ Equipment cost 	“	
<ul style="list-style-type: none"> ▪ Training 	“	

7.4 Resource Assessment

7.4.1 Objective

The objective is to strengthen PEPD to efficiently carry out its roles and functions in petroleum planning and administration.

A good understanding of the resource base is necessary in order to define policies and strategies that will ensure optimal management of the petroleum resource. In a field development situation a more sophisticated approach to resource assessment is required to satisfy banks and investors.

7.4.2 The specific activities

Programme	Achieved so far	Comment
The activity should provide both the necessary hardware and software tools and methodologies and the necessary training in using them. Data compilation, interpretation, basin modelling and resource inventory	Not complete	

generation are work-intensive tasks that will require substantial work by PEPD staff.		
<u>Output</u>		
<ul style="list-style-type: none"> ▪ Installation of computer software, hardware and peripherals ▪ A Petroleum Resource Classification System ▪ Routines for sustainable resource assessment ▪ An overview of the petroleum resources potential of Uganda ▪ Training as required 	<p>Not complete</p> <p>“</p> <p>“</p> <p>“</p> <p>“</p>	
<u>Norwegian co-operation input</u>		
<ul style="list-style-type: none"> ▪ Establish data base 	“	
<ul style="list-style-type: none"> ▪ Interpretation and classification 	“	
<ul style="list-style-type: none"> ▪ Compilation of total petroleum resources 	“	
<ul style="list-style-type: none"> ▪ Software basin modelling and resource assessment 	“	
<ul style="list-style-type: none"> ▪ Training 	“	

7.5 Promotion and review of exploration and licensing policy

7.5.1 Objective

The general objective is that the petroleum potential and license opportunities in Uganda should be effectively communicated to the petroleum industry through promotion.

Uganda must continue active promotion to attract risk capital for a responsible and technically up to date exploration of the yet unlicensed parts and in future relinquished areas. The Programme stated: *“If and when a discovery is made, the exploration and licensing policy needs to be adjusted. One would then consider competitive licensing rounds, revised block definitions and revised work programme requirements.”* A series of discoveries has been made and the Oil and Gas Policy recognizes competitive licensing rounds and advises revision of block sizes. These are the subject of the new legislation.

7.5.2 General evaluation

The importance of a promotion and a further licensing policy is presently of less importance. After the award of part of Block 4 in 2006 little exploration area remains relevant for licensing at present. Some parts of Block 3 will be surrendered by the oil companies in 2009, and this area may become open for new licensing. It appears now to be important to have undertaken further exploration activities, and thereby developing a further resource mapping, before further licensing should take place.

The National Oil and Gas policy includes some recommendations on further licensing policy. On the background of the licence award in 2006, it is recommended to review the licensing policy in view of the later experiences gained.

7.5.3 The specific activities

Programme	Achieved so far	Comment
<p>The activity should assist in defining an exploration, licensing and promotion strategy and prepare and compile the necessary documentation required in efficient promotion</p> <p>Such preparations include:</p> <ul style="list-style-type: none"> ▪ Model agreement ▪ Listing and price schedule of available data ▪ Technical evaluation report ▪ Definition of areas offered for licensing ▪ Information on infrastructure and contact point for oil companies ▪ Time schedule for licensing ▪ Requirements of applicants including: <ul style="list-style-type: none"> ○ Financial ○ Technical ▪ Definition of evaluation criteria 	See comment in chapter 7.5.2	
Output		
The successful output would be a promotion campaign		

leading to a number of international oil companies buying data and carrying out evaluations of the acreage in question. The goal would be to receive license applications leading to licensing and increased exploration activity.		
<u>Norwegian co-operation input</u>		
▪ Define exploration and promotion strategy	“	
▪ Preparation for promotion campaign	“	
▪ Conducting promotion campaign (consultant hours)	“	
▪ Assisting the licensing (round)	“	
▪ Training	“	

7.6 Activity monitoring

7.6.1 Objective

The general objective is that a fully operational function established for the monitoring of oil company activities.

Procedures are currently in place for exploration activity monitoring by PEPD. As the oil companies proceed to development and production, reporting and monitoring routines and procedures shall be developed. This activity would be co-ordinated with the activity to establish appropriate regulations under the Petroleum Act.

Programme	Achieved so far	Comment
<u>Output</u>		
Reporting and monitoring routines and training in activity monitoring	Workshop with representatives of the Norwegian Petroleum Directorate and the Norwegian Safety Authority held in April	

	2008	
<u>Norwegian co-operation input</u>		
▪ Procedures for monitoring exploration activities	Not completed	
▪ Well planning/ costing software	“	
▪ Training	“	

7.7 General training

7.7.1 Objective

The general objective is that staff should be trained and capable of performing the tasks of PEPD.

The training will in part have been defined through the activity under chapter 7.2. A training plan should be established in accordance with needs defined in the various projects and activities within the Programme

On the job training will be given when working on the projects in the current Programme. This will constitute the most important training element in the Programme and each activity shall have a defined training component.

7.7.2 General comments

General training of PEPD staff has been a major part of the Programme. The employees have attended an important number of training courses, seminars, workshops and conferences. It has been an important contribution to the increase in the competence level within the PEPD's staff.

It is noted, however, that no long-term training within oil companies or petroleum authorities or other countries have been reported. We raise the question whether the obligations of the oil companies having signed PSAs have fulfilled their training and employment obligations under the PSAs. It should be explored and followed up whether such on-the-job-training can be established to a larger extent, since it is an important competence building measure.

It is noted that an important part of the Programme budget has been used for general training purposes. We have not been able to assess the specific outcome of the various courses, seminars etc. except observing the general competence increase. It is emphasized, however, that courses, seminars etc. should be carefully selected upon a prior evaluation of individual training needs for the each PEPD individual in light of

upcoming work needs, and the cost and the probably outcome of such seminars should also be carefully evaluated.

7.7.3 The specific activities

Programme	Achieved so far	Comment
<u>Output</u>		
<p>The intended output will be qualified and motivated employees of PEPD who have an in depth understanding of the petroleum sector and together can manage the sector and constitute a creditable counterpart and partner to the international oil companies</p> <p>The training shall include:</p> <p>Formal training (Master programmes and other)</p> <p>Petrad 8-weeks courses</p> <p>Short courses and seminars</p> <p>Tailor made programmes for individuals</p> <p>Attachment to industry</p>	<p>A number of staff of PEPD attended training courses, seminars, workshops, conferences and industrial training, including study tours to Congo-Brazzaville, Trinidad and Tobago and other countries for exposure to policy constitutional and infrastructural development in the oil and gas activities in those countries, Kenya, Mozambique, Norway, United States, United Kingdom.</p> <p>The training included courses in geoscience, in petroleum development and production and in petroleum management.</p>	See chapter 7.7.2
<u>Norwegian co-operation input</u>		
<ul style="list-style-type: none"> Short courses and seminars 	A large number of short courses and seminars attended.	
<ul style="list-style-type: none"> Formal training 	Several training courses from 3 -8 weeks attended.	
<ul style="list-style-type: none"> Petrad 8 weeks course 	Several persons have attended this course.	
<ul style="list-style-type: none"> Individual training 	No other individual training that the above activities have been reported.	
<ul style="list-style-type: none"> Industry on-the-job-training 	No on-the-job-training has been reported, but	

	attempts have been made towards OENGCC, India.	
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7.8 Laboratory and Facilities

7.8.1 Objective

The general objective is that a fully operational laboratory should be established for environmental analyses and staff should be trained to operate it.

PEPD is beautifully located in Entebbe, but the offices are not equipped for certain required functions, such as data and sample storage. Such facilities should be established or upgraded as required through the Programme. One particular requirement is capacity to perform environmental analysis and monitoring and an assessment is ongoing with regard to the needs to establish an environmental laboratory in PEPD.

7.8.2 General comments

Historically there has been a focus on building up laboratory capacity within PEPD. A moderate development of such capacity can have been relevant.

However, with the availability of laboratory services in the market today, this does not appear to be an important function of PEPD as a department in the future. We recommend that PEPD is focused on its petroleum management, monitoring and control activities. Laboratory services can then be purchased as required. We recommend that it is considered to “spin-off” the laboratory services from PEPD into a separate commercial company. Considering that there are no such laboratory services elsewhere in the country for the time being, PEPD would, however, need to retain sufficient laboratory capacity to handle preliminary analysis as is happening at the moment.

7.8.3 The specific activities

Programme	Achieved so far	Comment
The geochemistry/environmental laboratory should be equipped to analyse the effects of possible oil spills or pollution from petroleum activities, and be able to serve broader environmental monitoring also related to downstream petroleum activities, such as transport and storage of petroleum products.	A soxtec Avanti extraction operators for the Geochemistry Laboratory was procured and basic training on this operational usage undertaking during November 2007.	

<u>Output</u>		
Data inspection room Data storage facilities Workstation facility Geochemistry laboratory equipment Training and capacity building on environmental analysis and monitoring	Updating of office computer system was done in 2007 with procurement of additional computer services, including new servers establishment of an additional Local Area Network etc.	
<u>Norwegian co-operation input</u>		
▪ Geochemistry laboratory equipment	See comments above	
▪ Maintenance		
▪ Other facilities		

8 PROJECT 3: TECHNICAL AND ECONOMIC STUDIES

8.1 General objectives

Given the remote location of possible discoveries and the poorly developed infrastructure and markets in the region, the Government is likely to be required to take an active role in the commercialisation of oil and gas in Uganda.

The objective of the technical and economic studies is to study the key parameters that will decide whether or not a discovery may be commercially developed and establish an understanding of the roles required by the Government to make it happen.

8.2 Study on gas utilization in Uganda, including technical and environmental constraints regarding CO₂ (3 months)

8.2.1 Objective

The objective for this study is to develop documented scenarios for gas utilisation in Uganda.

8.2.2 The specific activities

Programme	Achieved so far	Comment
<p>The study should be made on the basis of realistic scenarios with regard to size of possible discoveries. It should make a technical and economic assessment of the most likely gas utilization option(s) in Uganda. The activity should include study tours to neighbouring Tanzania and Mozambique, who have recently commercialized gas production from Songo Songo and Pande respectively.</p> <p>Indications are that the Turaco discovery contains CO₂ and the study should address technical, economic and environmental implications in commercialising gas with CO₂. The study should include visits to projects where CO₂ is handled.</p>	<p>A draft report: "Gas Utilization Options and Hydrocarbon Infra-structure requirements in Uganda" was prepared by Eric Jarlsby AS in 2006.</p> <p>However, the discoveries of oil deposits in 2006 changed the focus from gas to oil, and the scope of the project was revised to put more emphasis on the oil infrastructure.</p>	<p>In view of discoveries of oil and the expected commencement of oil production, it is recommendable to await further studies on gas utilization.</p>

8.3 Infrastructure requirements and development concepts for commercial development of oil and gas in the Albertine Graben

8.3.1 Objective

The objective of this study is to establish documentation for the infrastructure required in case of commercial oil and gas development in the Albertine Graben.

8.3.2 The specific activities

Programme	Achieved so far	Comment
Very large discoveries would make it possible to export oil or gas through pipelines to the coast. Small or medium sized discoveries, which are more likely to occur, would address local or regional markets. The study should assess current transport infrastructure and possible locations for processing facilities, refineries, storage and distribution.	This study was shortly after the Programme commencement joined together with the gas utilization study under chapter 8.2.	It appears reasonable to have joined this study with the gas utilization study. After the oil discoveries a further study of gas infrastructure can be postponed to a later stage. It should be evaluated whether further studies on oil infrastructure requirements should be undertaken by PEPD, or whether it should be left to the oil companies in connection with their submission of development plans.

8.4 Evaluation of present and future regional markets for oil and gas in Uganda and adjacent countries

8.4.1 Objective

The objective of this study is establish documentation for the scope and nature of the regional East African markets for oil and gas.

Uganda itself is a very small market. Medium sized discoveries of oil and gas would soon require a larger regional market. The study should assess the size and nature of the regional market, and give an outline of regional options for supply from Uganda of oil and gas based energy and petrochemical products.

8.4.2 General comment

This study has not yet been approved.

It can be questioned whether this downstream study should be a part of the Programme, which is focused upon the Ugandan upstream sector. The Norwegian Oil for Development programme is generally concentrating on the upstream sector, since it is in this area that Norway holds particular competence due to its upstream activities.

It should therefore be evaluated to which extent the Uganda upstream activities are dependent upon a particular organization of the downstream market in this region of Africa, and whether the Ugandan authorities should engage themselves in such a market development. It may well be that the oil companies and other commercial actors will be the closest to find the adequate downstream market solutions. On the other hand, it may be that facilitation by the Ugandan state in a development of certain downstream infrastructure may be necessary in order to advance the upstream activities in a satisfactory manner. We understand that the PEPD considers such a study a useful long term planning tool, particularly regarding the production rates and consideration of export options, and they have noted that the Oil and Gas Policy envisages satisfaction of local and regional consumption demands before the export option is considered.

Whatever the merits of such a study, it is recommended that such an evaluation is undertaken before it is determined whether this study should be continued as a part of the Programme.

8.4.3 The specific activities

<u>Output</u>	<u>Achieved so far</u>	<u>Comments</u>
<ul style="list-style-type: none"> Each study should be made with participation of professionals from Uganda to ensure transfer of technology and building of competence. The activity outputs shall otherwise be in the form of study reports and workshops to ensure that the results are received and understood by the appropriate authorities. 	See chapter 8.4.2	See chapter 8.4.2
<u>Norwegian co-operation input</u>		
<ul style="list-style-type: none"> Consultant input to the three studies 		
<ul style="list-style-type: none"> Contribution to cost of study tours 		

9 FINANCIAL ASPECTS

9.1 General comments

As demonstrated in the chapters 6 – 8 above the execution of the Programme has been delayed for a number of the Programme components. This has resulted in lower spending than budgeted for.

The report “Statement showing the funds available on the existing project and the Programme Expansion” shows an actual balance on the project of USD 1,752,603.85 in January 2008. This amount represents the balance between budgeted funds and the actual expenditures for the years 2006 and 2007. Reservation is taken for expenditures on the Programme Expansion, which were not available at the time of the report.

The proposed activities for 2008 and the budget equals the actual balance on the project as per the end of 2007, i.e. USD 1,752,603.

It should be mentioned that the weakening of the USD in relation to NOK from the budget assumption of 1 USD = 6,50 NOK has resulted in less funds in NOK being available. An important part of the Programme expenses, however, are in NOK, in particular payments to Norwegian consultants. There is therefore less financial basis for the activities originally plan for the Programme then reflected in the budgets. With the delays in activities experience, and with the total budget including 2008 being lower than the original total budget, this should not represent a financial problem.

Still, the reality with regard to performance of activities is that the performance level throughout the Programme period will have been lower than assumed.

Hence, it must be expected that by the end of the three year Programme period fewer activities will have been concluded than planned for.

The consequences of this are discussed in chapter 11.

9.2 Reporting

In the Annual Reports for 2006 and 2007 costs for separate activities undertaken are given, and also the budget amount for the activity. In addition the timing for the activity is given together with explanatory remarks.

However, budget items for activities not realized are not included. It is recommended that the project reports should include budget at items that have not been spent. This allows for a comparison of the total budgeted amount for the project compared to the total spent, and also to visualize the activities that not have been realized.

On the total Programme level, there are reports on “Details of Funds Released, Spent, Committed and Balances” and “Statement Showing the Funds Available on the Existing Project and on Programme Expansion”.

In the Annual Report 2007 balances shown hour as pursue January 2008. It would have been preferable to have them as per 31 December 2007.

In the “Statement showing the funds available on the existing project and on project expansion” expenditures made on Programme Expansion were not available, and have not been reported.

9.3 Reservations

It has not been a part of the Terms of Reference for the present Mid Term Review to undertake an audit of the financial status of the Programme. We have only had available main governing documents being the agreements control of the actual use of the funds has been undertaken.

10 OTHER ASPECTS

10.1 Personnel resources

Within PEPD the personnel resources for carrying out the Programme have generally been sufficient. We have not identified that any of the delays to the activities have been caused by a lack of personnel resources within the PEPD. However, as earlier pointed out, the general work load on the PEPD management group is high, and they devote a high work load in general.

The scope of work for PEPD must be expected to increase when oil production is commenced probably in 2009. It is therefore recommended to increase the personnel resources of PEPD for that phase. Also, further capacity building will be needed to meet new challenges of this new phase.

Within the Norwegian project organization the resources appear to have been adequate. The Consultative Resource Co-ordinator, Mr. Ole Fredrik Ekern, has played an important role in the coordination of the Norwegian input to the Programme as well as in the general performance of the Programme. With regard to other consultancy resources there have also been certain restraints on availability. The present high activity level in the Norwegian petroleum sector as well as internationally may imply that availability of consultants at the present price levels may become more difficult in the future.

10.2 Organizational interaction

The interaction between PEPD and the Norwegian project organization appears to have been good. The Co-ordinator has been to Uganda on a quarterly basis, and he has maintained a continuous and close communication with PEPD from Norway.

The interaction between PEPD and other Ugandan administrative institutions, as discussed in chapter 11.5, has been good in certain relations and more challenging in others. The need for further horizontal co-operation and coordination should therefore be a priority in the continuation of the Programme, see also chapter 11.7 below.

10.3 Project HSE

We have not received any emergency preparedness plan for the Programme itself, and not reviewed any HSE procedures of PEPD. We have not, however, identified any particular HSE challenges. Such particular challenges may be involved in the aspects of the Programme's connection with field work, but the time and budget limitations for this review have not allowed an evaluation of such particular HSE issues.

10.4 Resource situation in other Ugandan institutions

The review time period and the time available for assessments of other Ugandan institutions was too limited to give basis for an adequate evaluation of the human, physical and financial resources in these institutions. The review team's interviews gave indications of certain availability of resources within NEMA and the Bank of Uganda, but on the other hand it was not possible to get access to sufficient information to make a good assessment of this. On the other side, the team got a similar impression of lack of personnel resources in MWE, but also here we were given insufficient information for a thorough assessment.

10.5 Other donors

In a similar manner, the time frame available did not give basis for an evaluation of the co-ordination with other donors. In interviews with the Norwegian Embassy personnel, the team gained a general impression that a co-operation with the World Bank, the Belgian Technical Co-operation and the African Development Bank as well as other donors was good. However, there was no opportunity to interview representatives of these donors, and we did not receive any documentation in this respect.

11 GENERAL COMMENTS

The following general comments are made on the basis of the detailed evaluation of the Programme under the chapters 6 – 8.

11.1 General

The Programme is organized and concentrated around the PEPD. Allowing the PEPD to manage the Programme has proven to be a good solution. The capacity of PEPD has been strengthened. The institution holds a high quality level in a wide area of petroleum management issues. PEPD has thus been developed to become a cornerstone in the State administration of the upstream petroleum sector, which generally fulfils within its limits of capacity and responsibilities, the objective of being capable of planning, promoting and monitoring oil company investments in the petroleum exploration and production. Although being staffed to a large extent by personnel with geological, geophysical and other engineering background, the personnel has in addition to these areas developed competence within the areas of policy, legal and regulatory framework for petroleum sector of Uganda, economic matters etc. Compared to similar institutions in other countries in a similar commencement phase of petroleum activities, PEPD has a broad competence and represents a well established basis for the administrative management of the further petroleum development of the country.

It is recommended to increase the personnel resources for PEPD as further explained in chapter 10.1.

11.2 Progress

The technical progress of the Programme is lower on several programme components than planned and budgeted for. This mainly concerns Project 1, where the Government's process with a National Oil and Gas Policy for Uganda was delayed compared to the planning assumption. Project 1 included a number of legislative preparation processes, in particular preparation of an updated Petroleum Law, the preparation of Petroleum Regulations, an updated Model PSA and a new Revenue Management Law. These legislative work elements had to be postponed due to the delay of the Policy document. Some activities were undertaken, including seminars on petroleum law aspects and the preparation of principles for the amended law. However, the drafting on new legislation was postponed. The legislative preparation processes of Uganda implies that the Cabinet has to instruct the Ministry of Justice to start the formal drafting process, and the Cabinet would not issue such instructions before the Policy document had been approved. Systematically, it is correct to adopt a policy before the legislation is drafted.

The preparation of updated legislation has now become an issue of high importance, since commencement of early production is expected next year. As the Policy document now has been approved by the Cabinet, it is recommended to give priority to the legislative preparatory work.

The progress in Project 2 has generally been good. Overall, the capacity building of PEPD has advanced during this period of the Programme.

In Project 3 the main study was the gas utilization study in 2006. After the discoveries of oil at the end of 2006, the further progress of gas studies were put on hold and the scope was changed to oil infrastructure, which in our view was a correct decision.

11.3 Finance

The use of funds has been lower than budgeted both for 2006 and for 2007. In particular for 2007, the Programme Expansion was mainly carried through. According to the Annual Report 2007 the expenditures for 2006 and 2007 were USD 1,159,751, whereas the budgeted amount for these two years including Programme Expansion was USD 1,745,300, leaving an unused balance of USD 585,549.

We have not had available sufficient documentation basis to evaluate whether the activities actually performed were in accordance with the specific budget assumptions. We have further not undertaken any audit or particular accounting controls.

With regard to the cash management in the Programme some problems have been experienced, causing PEPD to have less current control over expenditures being incurred and hence reduced possibility of current activity planning.

There have been delays in submitting cash calls by the Ugandan Government, and there have been delays from the Norwegian Embassy in responding to cash calls.

There have also been delays on the invoicing side. There have been certain delays in the quarterly invoices submitted by Petrad.

In the Contract between Petrad and the MEMD it is provided for Petrad to have a working capital of USD 150,000. In Petrad's position with limited liquidity, it is understandable that there is a need for a certain working capital. Petrad has no excess capital from which to draw reserves, and could not have provided such early payments without a cash advance from the Programme account.

However, as we understand it, an agreement for gradual reduction of the Working capital advance has been reached between Petrad and the PEPD. According to this plan, payments by Petrad during 2008 will be made without replenishments into Petrad's account. This way the advance will be gradually brought to zero by the time the present Programme ends in December 2008.

The current arrangement for honouring Norwegian consultants engaged in the Programme which necessitates a working capital advance from the Programme to Petrad, is unsatisfactory. We recommend that this arrangement is changed to improve budgetary and expenditure control for the programme management.

Keeping a significant part of the Programme spending outside a current budgetary control of PEPD will make it more difficult to maintain financial control and keep

abreast of the economic performance of the programme. Further, lacking the justifications of the particular invoices that are honoured through Petrad, a complete audit carried out by PEPD would be incapable of uncovering any potential misappropriations as the underlying documentation is not forwarded to the PEPD.

We have been informed that the PEPD and Petrad have already agreed to deconstruct the working capital buffer gradually during the current financial year (2008), as explained above. We understand that Petrad is ready to consider alternative arrangements to remedy the lack of buffer capital. We see that in the present circumstances at least two alternatives present themselves.

Firstly, Petrad could amend its practice of quarterly payments to consultants. A system allowing consultants' invoices to be forwarded for payment on a monthly basis, would contribute significantly to reducing the lag time, as well as minimize the need for Petrad to intervene to make payment directly to Norwegian consultants.

Secondly, a more fundamental change that should be considered would be shifting the responsibility of honouring invoices received from Norwegian consultants to the PEPD, reducing Petrad's responsibility with regard to invoicing to mere mail forwarding. Such a change would allow PEPD full budget and expenditure control, while it may increase the consultants' exposure to possible delays with transfers from Uganda. However, it will represent an additional burden on an organization already labouring under a high work load, which makes this alternative less recommendable.

It is therefore recommended that the practice of such advances is reviewed by NORAD, PEPD and Petrad, and that the usefulness is considered against alternative ways of serving the same objective of spending and cash management control.

In addition, it should be considered to implement a new routine for financial project management based on commitments as they arise. This implies that deliveries of services and goods should be considered as financial obligations incurred, in respective of invoices. Such a financial management system will allow a better continuous financial control. It requires, however, that one has an overview of the development of services delivered before they are invoiced. This may be possible e.g. through submission of monthly time sheets. However, as this would be an unusual routine as far as deliveries of consultancy services, implementing such a new financial management system may therefore be challenging. It is submitted here, however, that if implementation difficulties can be overcome, such a system is likely to provide a better financial overview to the Programme, while retaining the practical advantages for the procurement of Norwegian goods and, especially, services.

11.4 Relevance and quality

Although having not had the possibility of a detailed evaluation, it is our general comprehension that the quality and relevance of competence transfer, training, study tours, workshops and seminars has been good and has strengthened the human resource capacity in particular within PEPD.

With regard to external seminars arranged outside the Programme organization, it is recommended to document evaluations of the seminars desired in relation to a specific competence building plan for the individuals concerned, where relevance, content and costs are evaluated.

11.5 Horizontal co-operation between government agencies involved

Whereas the main focus of the programme has been on development of PEPD, there appears to be notable differences in petroleum competence within other government agencies involved in the management of the upstream sector. Although certain persons within management of some such agencies, such as the Ministry of Finance, Planning and Economical Development and the NEMA, have demonstrated a very good understanding of the principled and current issues related to upstream petroleum management, there is a need now to strengthen the horizontal cooperation between other government agencies involved and capacity building within these agencies. PEPD has attempted to establish such cooperation, and to some extent this has been achieved. At the present stage there is, however, a need to increase the attention in these agencies of their need for involvement and capacity building in view of the upcoming pilot petroleum production project.

It is recommended to increase the horizontal co-operation in particular with the Ministry of Finance and the Bank of Uganda with regard to revenue management, and with the Ministry of Water and Environment and NEMA with regard to environmental matters.

It is further recommended to seek to establish “ownership” to the relevant petroleum management issue within the relevant administrative institutions. This could be done by firstly confirming a formal co-operation arrangement at top management level within each institution, and thereafter appoint specific employees that are devoted to the build-up of competence within the institution. Specific training programmes for such employees should then be established.

11.6 Organization

The set up of the organization of the Norwegian project team and its co-operation with PEPD appears to be satisfactory. The interaction between the relevant Norwegian advisors and the nominated responsible persons in other Ugandan institutions can be increased as the horizontal co-operation increases. Since the legislative work in Project 1 will be a priority in the next period, it appears to be important that the co-operation between the Simonsen Law Firm and the Ministry of Justice is continued and further developed. To the extent that the Norwegian Ministry of Finance is ready to engage in advisory activities on revenue management issues, it is of similar importance to establish direct co-operation lines with the MFPED and the Bank of Uganda.

11.7 A possible reorganisation of the Programme

The focus on the PEPD to act as programme organizer - and on capacity and competence building at the PEPD - has on the whole been successful. The directors at the PEPD appear focused and capable. However, inasmuch as the Programme

seems to have strengthened the PEPD significantly, other parts of the Ugandan civil service charged with upstream petroleum or environmental responsibilities have received less attention from the Programme. More is needed. To facilitate a broader coverage for the Programme, an amendment of the way the programme is coordinated and funds are channelled in Uganda may increase efficiency and improve absorption across the sector.

A revised programme structure was briefly discussed with representatives at the Norwegian Embassy in Kampala. In order to mirror the main pillars of the Programme elements and enable a rational communication between the main Ministries involved in Uganda and in Norway respectively, it should be considered to divide the Programme into three main categories; for resource management, environmental management and revenue management, respectively. Each of the arms would have its own organisational structure; all three within the overall management of the annual Programme meeting and of the quarterly coordination meetings.

Projects within each category may then be coordinated directly between the ministries or agencies involved, in some cases bypassing the PEPD. PEPD may shortly be reorganised. It is likely that the resulting institutions following such reorganisation will be candidates for taking on new coordinating responsibilities. However, the recommendations herein are meant to be valid regardless of the way the PEPD may be reorganised.

In general terms the programme may benefit from an organisational structure along the lines of the figure below:

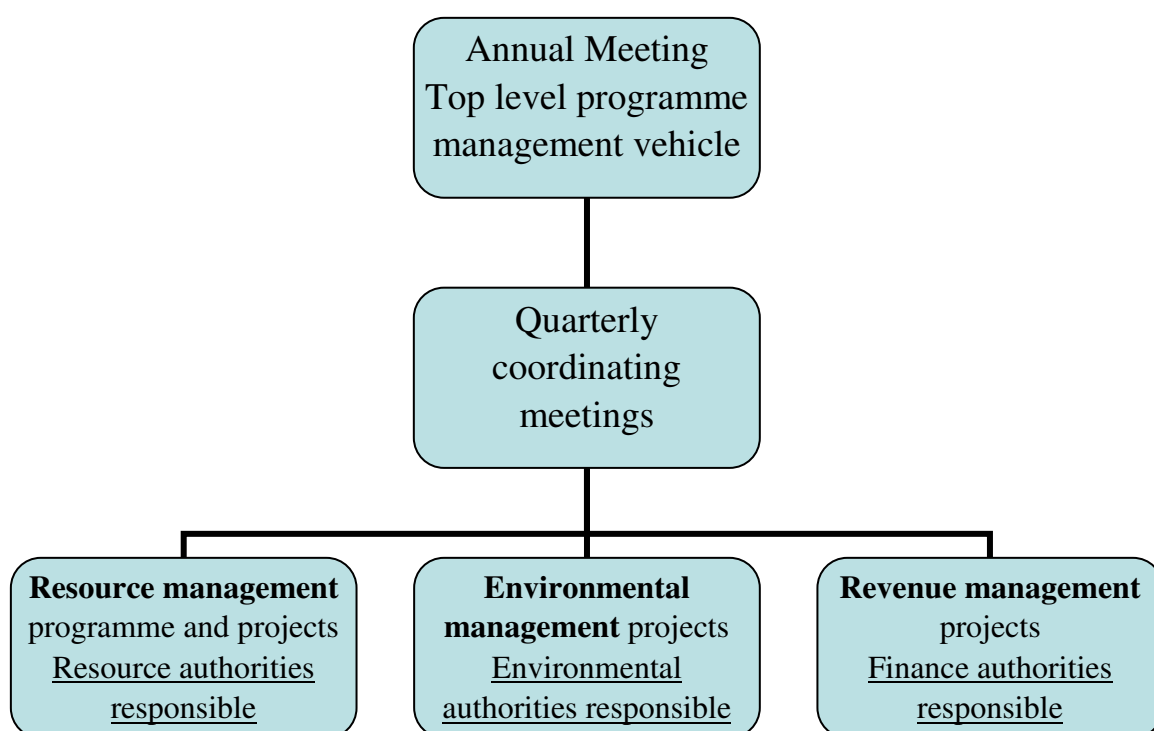


Figure: Principled reorganisation of programme

The advantages of such revised structure would potentially be quicker and more direct communication between the institutions involved on either side, allowing each project arm to progress unhampered and unfettered by the progress or lack thereof of the other arms, deeper penetration of competence building to the institutions in need of such competence and a higher degree of sector authority “ownership” to the programme. At the same time as internal dependencies thereby may be reduced, a close co-ordination of progress planning should be made.

Keeping an overview of the three categories may be more of a challenge than is the case with the existing structure; however, this will be an issue primarily for the Embassy in Kampala and to some extent to the Norwegian coordinator, Bridge Group, neither of whom have voiced any misgivings in respect of such reorganisation.

After the Mid-Term Review was completed, but prior to the filing of this final report, we have received a proposed refinement of the reorganised structure, which appears to capture the idea of a decentralised co-ordination of programme elements with independent responsibility for the Norwegian and Ugandan institutions responsible for the three main programme categories; resource management, environmental management and revenue management, respectively. The proposal is summarised in a diagram presented below.

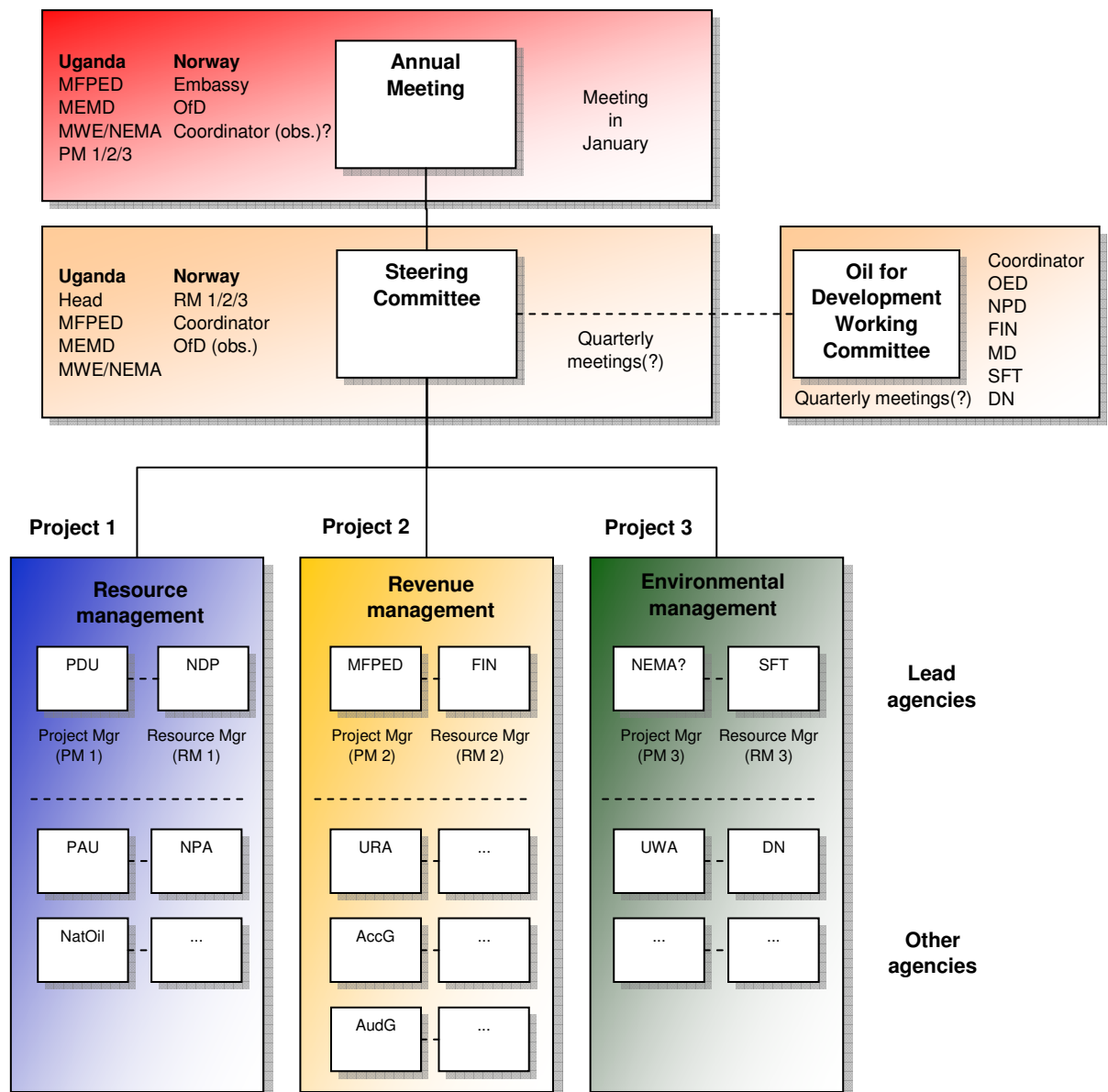


Figure: Tentative proposal for reorganisation of programme (in progress May 2008)

12 PROGRAMME CONTINUATION

The probable commencement of early oil production in 2009 underlines the importance of having adequate legislation and administrative capacity in place at that time. Whereas the capacity building in PEPD in general is in good progress, three areas of challenges are:

- Preparation and enactment of new petroleum legislation and possibly also revenue management legislation
- Establishing capacity within other administrative institutions involved in the petroleum activities, in particular on a revenue management and environmental side
- Increasing the administrative co-operation between PEPD and other administrative institutions

The delays in the progress on several Programme components, in particular in Project 1, implies that it will probably not be possible to fulfil the Programme objectives within the 3 year programme period ending at the end of 2008. Although an ambitious plan for the 2008 activities was presented in the 2007 Annual Report, it cannot be expected that all the programme objectives will be fulfilled, in particular on the legislative side.

It is recommended that the Programme is continued in order that its main objectives, as adjusted, are achieved. This will firstly imply an increased programme effort during 2008. However, since this year will not be sufficient to achieve these objectives, we further recommend a prolongation of the project after 2008. The main objectives for such a prolongation should, in addition to fulfilling the existing programme objectives, be to fulfil the three objectives outlined above.

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ENCLOSURE 1. HEARING COMMENTS

A draft of the present report was circulated by Norad to the PEPD, Bridge Consult AS, Simonsen law firm and Petrad. The hearing comments are enclosed hereto.

The hearing comments made by PEPD, Bridge Consult AS and Simonsen law firm in our view contain valuable comments and insights, most of which have been taken into account in the present final version of the report. We have also taken some comments from the hearing document “Comments to Mid Term review of Project 0329” submitted by Petrad into account in the final report. This latter-mentioned document contains, however, a number of comments of such a special character that they necessitate a response from our side. Our response to Petrad's comments, and Norad's comments to the same, are included at the end of the hearing comments below Petrad's comment.

APPENDIX TO ENCLOSURE 1: HEARING COMMENTS

1. FROM BRIDGE CONSULT



Mid Term Review of Project 0329 - comments

The review of the Uganda capacity building programme carried out by Arntzen de Besche is a well made assessment. ADB documents that they have made a thorough evaluation with a good understanding of the overall programme and the key issues. Their conclusions and recommendations are logical and will serve as a good input to the completion of the ongoing programme and the eventual prolongation.

An initial comment to make is that the Uganda programme is designed as a demand driven project. ADB reflects this correctly in the report, but some of the conclusions and recommendations give the impression that the project is subject to general control by the Norwegian cooperating partner. However, both the progress of the programme and vertical and horizontal communication between institutions is primarily an internal issue on which the Norwegian project stakeholders have limited impact.

Also the title of the review; '*The Petrad Capacity Building Programme*', is a somewhat misleading heading. The programme should not be labelled as a 'Petrad-project' as Petrad has no project management function, but serves as an institutional partner, facilitator and coordinator of external resources.

The MTR uses the original program document 'Part B – The Upstream Petroleum Sub-sector' together with the Addendum No.1 to the Program Agreement as a basis for the review. This is an appropriate base-line. However, based on the mandate given to the Annual Meeting and PCC several adjustments have been made to the original program. The agreed work plans of the program are therefore more correctly the plans as approved by the Annual Meeting each year and with the corrective actions found necessary by the PCC and as documented in the minutes from these meetings.

The comments to the review are given from the position as external resource co-ordinator for the programme. Hence, the comments are not on behalf of Petrad who may have additional and different comments to the MTR.

Please note under the summary section, 2. paragraph that the pilot production is not planned for the Semliki Basin, but for the Kaiso Tonya Area within the Northern Lake Albert Basin.

Chapter 1

This chapter is a direct copy of paragraphs from the original project document, but for readers not familiar with the origin, the write-up probably can appear somewhat strange as it does not capture any of the events after the point in time when the programme was written. I would suggest it would be more appropriate to reflect the full history up to this date. Several adjustments have been made during implementation, and the rationale for these can only be assessed against the actual development and results of the activities.

Chapter 3

Figure 1 is copied from the programme document, but should have been slightly changed to be in-line with the rest of the project description (adjusted project titles; change 1 and 3). The review should also be consistent on using MEMD (rather than ME&MD which appears in the figure and other places in the report).

The description of the programme expansion under chapter 3.4 is not complete. There are additional components not listed, included HSE and new data room.

The review points out that the itemized basis for the budget expansion was not made available. This statement is somewhat strange as this document was submitted from PEPD to the Embassy on 15.12.06 and was the basis for the subsequent approval.

Chapter 5

The interviews carried out are listed under chapter 5.2. These cover a broad range of relevant institutions and stakeholders. Still, the following institutions and individuals would also have been expected to be included:

- MEMD (MEMD is the key Ugandan ministry for the programme and also represent Uganda in the Annual Meeting)
- The Norwegian Embassy; as pointed out by the review the Embassy serves a key co-ordinating role for the programme
- Farouk Al-Kasim; having a long-term consultative role for the policy development
- Einar Bandlien; was instrumental to the programme development

Chapter 6

The review correctly comments the delays experienced regarding policy approval by the Cabinet and its impact of the progress of the programme. The review suggests however, that informal preparation of the new act, regulations and PSA could have started prior to Cabinet approval of the policy.

I share the view of the MTR that an alternative schedule would have been appropriate if the duration of the decision process could have been foreseen. In hindsight the project plan was too ambitious, but it was logical and appropriate when implementation started. As pointed out by the MTR the scheduled sequence of activities was also systematically correct.

Doing more activities in parallel is also a matter of human resources and capacity. In reality only a small group within the administration has the necessary sector understanding to be in the driving seat. The sequence of events was also made to accommodate this resource restriction.

The need for having modern and well developed petroleum legislation in place before early production takes place in 2009 is pointed out by the MTR. While this is still the goal of the programme, I think building capacity to enforce the legislation already in place is a more critical issue. It is not likely that a new Act and corresponding regulations will be in place in time for early production activities.

Under the heading ‘Norwegian co-operation input’ in chapter 6.3.3, two bullets are listed for ‘Petroleum legislation’ and ‘Workshop’. This should in fact only be one bullet: ‘Petroleum legislation workshop’. While this appears to be a minor discrepancy, the table in the MTR now reflects that Norwegian consultants should draft and deliver petroleum legislation to PEPD. This has never been the intention. The consultant should only assist PEPD in the process and provide QC. It has been regarded as essential to creating understanding and ownership that the actual drafting is done by the Ugandan stakeholders.

According to the table under 6.5.3, the training carried out has not addressed PSAs. This is correct with respect of the legal workshop, but the financial implications of PSAs have been discussed in other workshops.

Under chapter 6.7.2 the review recommends that the co-operation between PEPD and HSE institutions should be increased. While I completely agree with the MTR on their recommendation, it should be pointed out that this has been a continuous effort from the very start of programme implementation. As this is a key issue for the successful continuation of the programme, the issue would have deserved a more thorough analysis and a set of recommendations.

There is no disagreement that a Revenue Management Law is not a part of the PEPD responsibility. A set of other programme activities fall in the same category. These activities are included in the programme from an understanding that the PEPD involvement is necessary to ensure that they are brought forward. I will not concur with a recommendation

to make a separate organisation of the Revenue Law activity under the present programme. In the case the activity is postponed to the next programme phase with a reorganised structure, a transfer to the revenue management project is logical.

Chapter 7

The MTR states in the table under 7.2.2 that documents from the functional analysis workshop have not been seen. Documents do exist as minutes from the workshop distributed by PEPD and the functional analysis summary prepared and distributed by the Bridge Group.

Under chapter 7.4 there must be a misunderstanding from the MTR regarding the scope of the activity. Hence, 'Resource Assessment' is addressing the issue of evaluating oil and gas resources and it is not about the human resources of PEPD.

I agree with the comments made under 7.5.2 that further exploration should take place before new licensing is taking place. However, I think this is a good opportunity to review the licensing policy and do not concur with the recommendation to postpone this programme component. Also there is a continuous pressure on PEPD to initiate licensing of the few remaining acreages.

Chapter 8

As correctly described in chapter 8.2 the discovery of oil in Lake Albert made the focus on gas utilisation less pertinent. It is not fully correct however, that the study was discontinued. But the scope of the project was revised to put more emphasis on the oil infrastructure. The gas utilisation and market considerations were included in the report which also is issued in a final version.

As pointed out under chapter 8.4 the evaluation of the market for petroleum is not necessarily an issue to be included in the programme. This was also some time back transferred as an issue to the East African Community to follow up. EAC has made an approach to the Norwegian Embassy in Tanzania for support.

Chapter 10

I fully share the assessment of the MTR regarding the capacity and motivation of the PEPD staff. While the lack of personnel resources has not been a direct cause of delays, the total work load is still a critical issue to the project effectiveness. The need for increased capacity will be more pronounced as consequence of the start of early production, but even more as a result of the implementation of a new structure for petroleum administration. Still it is not a decision for the programme to increase the personnel resources of PEPD. The issue should be brought up however, in the discussions with government regarding the new programme.

The statement in the MTR of 'sufficient availability of consultancy resources' is not fully covering the situation. In particular for certain technical activities in high demand in the Norwegian petroleum sector, it has been difficult to identify adequate resources in a timely manner.

The MTR points out the need for further horizontal co-operation between the governmental institutions involved in the petroleum administration. This recommendation is fully supported, but as pointed out previously this has also been a continuous effort under the existing programme. The MTR provides limited guidelines as to how this improvement in communication should be achieved. The limited communication is to a large extent a function of limited understanding of the petroleum activities and the role of each institution. The programme will offer capacity building, but there also have to be a set of commitments on the Government as to how the new petroleum policy should be implemented. I think it will be necessary for the Embassy to play a more active role to keep the Government accountable.

Chapter 11

The MTR provides a good description of PEPD's role and aspects of the progress. I agree with the recommendation to focus on the legislative work to be prepared for the early production. Realistically however, the approval phase of a new act will not be reached before the early production will commence. It is therefore more important now to identify areas that are left blank within the existing framework and ensure that a set of guidelines are in place that can secure that the government can exercise control of the operations.

I agree with the MTR that the budgetary and expenditure control for the programme should be improved. It is however, important to look into the different financial aspects of the programme:

- The formal accounting process
- The cash flow in the project
- The financial project management

The formal accounting will never serve the purpose of being a tool for financial project control. Formal accounting follows accounting rules and will always be lagging behind the actual project status.

All participants in the project should as far as possible be balanced in terms of cash status; i.e. payments should be made according to services delivered. Neither the institutional partners nor any external service provider should have any surplus or deficit more than what is considered appropriate to ensure efficient and effective project implementation.

The working capital structure in the project has been a practical arrangement to improve project implementation. This has served the intention of ensuring payment to Norwegian resource persons according to normal invoicing practices. The invoices from Petrad to MEMD/PEPD have unfortunately been issued with delays in addition to the 3-months period

they were supposed to cover. However, although a monthly invoicing schedule would improve the situation, also a revised schedule would not meet the requirements to proper financial project control.

Hence, my recommendation is that a new routine for financial project management is introduced. The system should be based on commitments and deliveries of services/goods. A services delivered should be considered as a services paid. In this way the project management will be based on current financial figures and decoupled from the invoice and accounting process.

A more frequent invoicing from Petrad may well be considered, but provided that a new system for financial project management is introduced a change of invoicing frequency is not considered necessary and will just add on to the administrative burden.

I will not concur with a recommendation of shifting the process of invoicing to Uganda. This will probably have as a consequence that all contracts will be subject to the local procurement procedures. This may substantially decrease the efficiency and effectiveness of project implementation. Further, to be subject to invoice processing in Uganda will put a risk factor on the consultants that may discourage them from offering services.

The reorganisation of the programme to better reflect the three pillars of the Oil for Development concept has for long been a guiding principle. However, developing the three pillars is not only a matter of providing more attention. Substantial efforts have been made through the ongoing programme to develop cooperation and communication with the environmental institutions. As pointed out previously the commitment from the appropriate levels in the Ugandan government will also be needed for the pillars to be developed.

PEPD has served as an important catalyst for the programme. They have clearly involved themselves in areas not formally under their functional responsibility, but they have done this from the understanding that their involvement was essential to move the project elements forward. PEPD has an understanding of the petroleum sector and its consequences that still is lacking in the rest of the administration. It is essential that PEPD (or the new directorate/agency) can continue to serve this function. I agree on the general structure proposed with three project areas, but the position of the MTR of *'allowing each project arm to progress unhampered and unfettered by the progress or lack thereof of the other arms'* is not supported. It is essential that the activities within the three pillars are closely coordinated under the framework of the policy and according to the development of the sector. The individual pillars can not be left to develop as they please. Still the 'Resource Management' will be the driving force and they will need both to push and drag the two other pillars.

Chapter 12

I agree with the MTR on the recommendation to extend the present programme into 2009. I concur with their conclusion that certain activities are unlikely to be completed in 2008. I also agree on the three objectives outlined. These also however, will serve as objectives for a

new programme phase as they are too long-term and ambitious to be fulfilled within the existing program.

Additional issues under TOR

The scope of work for the MTR is outlined in chapter 2 and it is my viewpoint that the majority of bullets have been well addressed. Two points where more information is expected are:

Resources of Ugandan institutions

The MTR was requested to assess to whether PEPD and the other Ugandan institutions had the necessary human, physical and financial resources to carry out the activities. The MTR has clearly concluded regarding the capacity of PEPD, but the assessment of the other institutions is very limited. In light of the importance of the other institutions for a continuation of the programme a more elaborate assessment of their capacity would have been very beneficial.

Relation to other donors

According to the ToR for the MTR, the review should discuss the coordination with other donors. This point has apparently not been addressed by the MTR. There are however, a number of contact points with other donors that should have been identified and discussed. This primarily relates to the environmental area and revenue management, and is important to the future programme implementation. Other donors include:

- World Bank
- Belgian Technical Cooperation
- African Development Bank
- US Trade and Development Agency
- Wildlife Conservation Society
- WWF
- Etc

Entebbe, 12.06.08

Ole F. Ekern

APPENDIX TO ENCLOSURE 1: HEARING COMMENTS

2. FROM SIMONSEN ADVOKATFIRMA DA:

Comments to Mid Term Review of Project 0329 regarding "The Petrad Capacity Building Programme for strengthening the State Petroleum Administration of the upstream petroleum sector in Uganda" ("Mid Term Review")

SIMONSEN Advokatfirma DA ("SIMONSEN") has received the above mentioned report for review. In general terms we consider the report to be sound and a useful tool to improve the continuation of the Programme. As consultants engaged under the programme by Petrad and thus contributors to the execution of the program, we have a few comments to the review:

1 COMMENTS TO THE EXECUTIVE SUMMARY

1.1 Comments to the time line for drafting a new Petroleum Law

In the Executive Summary section 0.2, first bullet point, first paragraph, last sentence it is stated that:

"Although a Cabinet instruction was needed in order for the Ministry of Justice to commence formal legislative drafting, informal preparatory work on several of the Project 1 activities could in our view have been continued irrespective of the delay."

The initial intention of the Ugandan authorities was to revise the existing law. As early as April 2006 a memo on "initial observations regarding the structure and content of the 1985 Ugandan Petroleum Law" was provided by SIMONSEN and forwarded to PEPD. The memo created the basis for the decision to write an entirely new law. In August 2007 the work was restarted as PEPD now had capacity to start drafting. As pointed out in the Mid Term Review to authorise the drafting of a new law; a Cabinet decision is required to approve allocation of resources for such work.

More importantly, however, the Cabinet also needs to approve the principles on which drafting of a law is to be based. Only within approved principles may any Ugandan law be drafted. As the principles have such fundamental effect on the content of the law, the support provided by SIMONSEN in the autumn of 2007 focused on assisting with the development of these principles. It is the view of SIMONSEN that external counsels must respect due processes of a sovereign state. Thus SIMONSEN is of the opinion that a realistic level of activities was undertaken and that the formal Ugandan legislative process had to be respected.

As the Mid Term Review also suggests to some degree, the initial time line defined by the Ugandans was not realistic. This was pointed out by SIMONSEN. To reflect SIMONSEN comments we suggest deleting the above quoted sentence and insert:

"The project time line did not take sufficiently into account the time aspect and procedural requirements related to Cabinet approval of principles before the drafting of the law could commence. The preparation of the principles for a new Petroleum Law eventually submitted and

approved by Cabinet, provided good capacity building in preparation for the drafting of the law itself.”

Further to the above remarks, we suggest that section 0.2, fifth bullet point, second paragraph be changed from:

“The preparation of new petroleum legislation has therefore only started in 2008, and not the year before as the Programme assumed. The delay may therefore have been well-founded, and the Programme plan may have been too ambitious in terms of schedule.”

To:

“The main efforts on drafting of new petroleum legislation have therefore only started at end of 2007, while activities earlier on were required to fulfil formal legislative procedures not anticipated by the Programme. The delay therefore appears well-founded, and the Programme plan may have been too ambitious in terms of schedule.”

Similarly as above, we suggest that section 0.2, fifth bullet point, second paragraph be altered from:

“However, the legal advisory consultant has within this limitation arranged some in-depth seminars on legislative comparative and preparation issues, and draft principles for amendments to the Petroleum (Exploration and Production) Act have been prepared. The delay has also affected the development of rules and procedures for social and environmental impact assessments that must be in place ahead of the early oil production scheme expected from mid 2009. The development of this new legislation has now become of major significance.”

To:

“However, the legal advisory consultant has within this limitation arranged some in-depth seminars on legislative comparative and preparation issues, and assisted in drafting principles for amendments to the Petroleum (Exploration and Production) Act for submission and approval by the Cabinet. These principles are fairly extensive in scope and lay the formal and material foundation for the development of any new Ugandan law. The approved principles does encompass rules and procedures for social and environmental impact assessments that must be in place ahead of the early oil production scheme expected from mid 2009. Since overall time is limited, the development of this new legislation has now become of major significance.”

1.2 Strengthening the legal capacity of PEPD

In the Executive Summary section 0.2, second bullet point, last paragraph it is stated:

“Although the personnel of PEPD has been able to lead the 3 projects with its quite wide range of issues, it is recommended to develop economists and lawyers with particular competence in the petroleum sector, and either connecting them to PEPD or devoting such personnel in other administrative institutions to be directly involved in the next phases of the petroleum activities, including the Ministry of Finance, Planning and Economical Development and the Ministry of Justice (...).”

SIMONSEN agree with this statement, and would reiterate the need to develop these capacities within PEPD itself. However, we would also like to emphasize that the cooperation with the Attorney General's Chambers and Ministry of Justice has been excellent with regard to preparation of principles approved by Cabinet and for the drafting itself. A lawyer or jurist with PEPD and involved in the drafting process would substantially enhance long term capacity. PEPD would then obtain an experienced person supporting the Commissioner in the application of the new Petroleum law when it enters into force. We suggest this recommendation be considered included in the report where appropriate.

1.3 Environmental focus

In the Executive Summary section 0.2, fourth bullet point, first paragraph it is stated:

"However, inasmuch as the programme seems to have strengthened the PEPD significantly, other parts of the Ugandan civil service charged with upstream petroleum or environmental responsibilities have received less attention from the programme. More is needed. To facilitate a broader coverage for the programme, it is recommended to involve other institutions more directly in the Programme, including the MFPED, MWE and NEMA."

SIMONSEN has not been involved in capacity building within these public entities. However SIMONSEN would like to emphasise that the principles as approved by Cabinet and the early draft version of the law include mechanisms to ensure implementation of environmental impact assessments, mitigation measures as well as the general applicability of HES standards and regulations for activities otherwise subject to the petroleum law.

2. REMARK AS TO THE MAIN BODY OF THE MID TERM REVIEW

2.1 Introduction

In chapter 1.1, last paragraph it is stated that:

"With today's oil prices around USD\$ 50, the cost of Uganda's annual imports of petroleum products would be some US\$ 260 million. This is equivalent to more than half of the country's export earnings and accounts for some 4 % of GDP. Consumption is estimated to increase at the rate of 5% per annum. This state of affairs is not sustainable in the long term."

This phrasing leaves the impression that it is the goal of the Programme to encourage self-sufficiency within a defined sector, in this case Petroleum products. It is our firm opinion that the Petroleum Law is intended to be a resource management law securing efficient extraction of Petroleum for the benefit of the Ugandan State. Regulation of Petroleum products supply to national markets falls outside the scope of such a law and need to be addressed regardless of the Petroleum (upstream) regulatory regime. We suggest considering to delete this paragraph in order to avoid that ideas of self-sufficiency as such is supported by the Programme.

In chapter 1.3, last paragraph it is stated that:

“Through this joint activity, PEPD will be able to serve broader environmental monitoring also related to downstream petroleum activities, such as transport and storage of petroleum products.”

We notice a clear tendency within the PEPD to mix downstream and upstream activities. We have worked consistently to assist Ugandan authorities formulate a clear distinction between the two. However, this remains a concern as the issues at stake are fundamentally different. We suggest changing the phrase to read:

“Through this joint activity, PEPD will be able to cooperate with NEMA and other environmental agencies on issues affecting both the upstream and downstream petroleum activities.”

2.2 Remarks on review of Project 1

As pointed out under 1.1 above regarding the seemingly delayed legislative process, we suggest that chapter 6.3.2, third paragraph be amended as indicated below:

“An initial review of the Petroleum (Exploration and Production) Act, Section 150 of the Law of Uganda 2000 was written in March 2006. A consultative workshop to introduce principles of petroleum law to stakeholders in the Government was arranged 6 – 7 September 2007. Simonsen thereafter arranged a one week capacity building workshop seminar in Oslo, Norway in October 2007. The workshop seminar addressed focused on writing the principles to be submitted to the Cabinet for approval and thus laying the foundation for the development of a new Petroleum Law content of different petroleum laws. Simonsen is known to possess a broad experience and competence on this issue, giving a strong basis for such competence building.

A Working Group to formulate a new law has been formed and has held 5 working meetings.

However, specific drafting of new legislation has not taken place to any significant extent, the reason being the waiting on the Cabinet instruction to the Minister of Justice through the approval of the principles which shall apply to the law.

It can may be questioned whether some informal drafting work all the same should might have been undertaken. Such drafting would of course have been preliminary and not binding in any way for the legislative preparatory work by the Minister of Justice, but such informal drafts could still provided an basis for input to and facilitated the formal legislative drafting when commenced. However, Ugandan personal resources are scarce and the formal procedural requirements clear on how the legislative process shall be performed. Without the principles approved by Cabinet required guidance and release of Ugandan resources could not be obtained.”

2.3 Remarks on general evaluation of Model PSA

In section 6.5.2. it is stated that:

“It can be questioned why the PSA work has been delayed. Several parts of the PSA are quite independent of legislation, e.g. normally the production sharing model. The 2006 model PSA provides for production sharing on the basis of daily production volume. This model does not provide for the Government to capture economic rent as a consequence of higher prices, and cannot be regarded as being in accordance with the interests of the host country.”

On the basis of extensive experience with negotiation of individual PSC/PSAs, as well as development of concession and contract based regimes, it is the firm view as demonstrated time and again that adjustment of documents awarding individual right to commercial entities without firm linkage to formal legislation leads to a duplication of work, a fragmented legal and contractual regime and weakens host State ability to evolve a consistent legal and administrative system for governance of petroleum resources and activities. Experience also show that stakeholders often have a tendency to focus on the individual projects under single contracts without securing long-term governance guidance systematically better ensured through law and secondary legislation. The Ugandan counterparts have taken on board this philosophy in anticipation of thereby ensuring a more consistent development of their petroleum legal regime particularly taking into consideration the limited availability of Ugandan resources to be dedicated to the drafting process at any given time.

APPENDIX TO ENCLOSURE 1: HEARING COMMENTS

3. FROM PEPD:

From: Petroleum Exploration and Production Department [mailto:pepdebb@petroleum.go.ug]

Sent: Friday, June 20, 2008 2:03 PM

To: Sæther Gjermund

Cc: Aarseth Ivar

Subject: MID-TERM REVIEW REPORT OF PROJECT 0329

Dear Mr. Saether,

We have reviewed the above report regarding "The Petrad Capacity Building Programme for Strengthening the State Petroleum Administration of the Upstream Petroleum Sector in Uganda" of 03 June, 2008.

On the whole, this is a well prepared and in-depth report whose observations and recommendations we find very useful.

We wish to make the following comments:

1. Page 8, under "A comprehensive Petroleum Policy", first paragraph, last line:

".....other programme" should be replaced by "....of the programme".

2. Page 10, last paragraph, 4th last line

"Challenge in the sector factory manner" is not clear to us. Was it intended to read: "challenge in the sector in a satisfactory manner"?

3. Page 14, section 1.3 "Complementing co-operation programme".

This cooperation ended in 2005 before the current project came into force and should be reflected as such.

The extraction apparatus and the gas chromatograph were purchased and are installed at the PEPD laboratories. The liquid chromatograph is one of the equipment to be bought under the proposed new project.

4. Page 15. The whole paragraph should be dropped because this role now falls under another department of the Ministry. PEPD may play a complementary role when its laboratories are fully constituted.

5. Page 25. Efficiency:

“.....experience”. Should be replaced by “expense”.

6. Page 28, Third Paragraph, first line.

“.....Evaluation is taken place.....” Should read: “.....Evaluation is taking place.....”.

7. Page 29, 5th Paragraph

“.....Arua og Kasese.....” should read: “.....Arua and Kasese.....”

8. Page 29. 6th paragraph, last sentence.

“A final draftas admitted to the Cabinet.....should read: “A final draftand submitted to Cabinet”.

9. Page 31, last paragraph, last line.

“Week” should be replaced by “weak”.

10. Page 32, 4th Paragraph

Informal drafting has actually commenced, but we agree it should have started earlier.

11. Page 36, Last paragraph

- (i) The delay in the amendment of the PSA has been caused by the drafting of the new petroleum (resource) law as a number of provisions in the PSA will be incorporated in the law.
- (ii) We agree that the PSAs were not structured to take advantage of runaway oil prices being experienced worldwide today. Several attempts have not succeeded because of the perception that Uganda’s PSAs are very tough. There have been repeated efforts by the companies to renegotiate fiscal terms which, the Government has resisted. Government intends to include, in the amended Model PSA, a mechanism to benefit from escalating oil prices.

12. Page 39, Second Paragraph, first line.

“.....roles to defect.....” should read:.....”roles to ensure.....”.

13. Page 39, Third paragraph, second last line:

- (i) “Institutional” should be replaced by “institutions”
- (ii) We are surprised about the lack of full understanding of roles by certain institutions. The policy formulation process was protracted and involved representatives of all institutions that are listed in the policy.

14. Page 39, Last Paragraph

The current structure of the Ministry is being evaluated and new institutions (Directorate, Authority and National Oil Company) are being proposed in accordance with the Oil and Gas Policy. A transitional arrangement is being worked out until the requisite legislation is in place to formalize these institutions.

15. Page 46, Second Paragraph, Last line.

Replace “significant” with “Significance”.

16. Page 48, Paragraph 2, first line

Delete “at” between “mandate” and “PEPD”.

17. Page 51, subsection 7.4.2 “General evaluation Paragraph 1, second line:

“.....those tasks that lie to PEPD as a directorate.....” Should read:”.....those tasks that fall under PEPD as a department.....”.

18. Page 53, Subsection 7.5.1 second paragraph, second and third sentences:

- (i) Discoveries have been made
- (ii) The Oil and Gas Policy recognizes competitive licensing rounds and revision of block sizes. These are a subject of the new legislation.

We feel that this part of the paragraph should be recast to reflect these developments.

19. Page 53, subsection 7.5.2 Second paragraph

- (i) We propose that the phrase “against the advice of PEPD and the Norwegian cooperation team” be deleted. The advice was rendered after negotiations had begun and Government had to demonstrate that it could be trusted.
- (ii) Third sentence
“rendered” should be replaced by “surrendered”

20. Page 58, section 7.8.2, Second paragraph

- (i) Considering there are no such laboratory services in the country, PEPD will need to have sufficient laboratory capacity to handle preliminary analysis as is happening at the moment.
- (ii) Replace “directorate” with “department”.

21. Page 62, Section 8.4.2, Second Paragraph.

We believe this study is useful for long term planning particularly regarding the production rates and consideration of export options.

The Policy envisages satisfaction of local and regional consumption demands before the export option is considered.

22. Page 66, Last Paragraph, last line.

Replace “preparative” with “preparation”

23. Page 74

Information available is that Tullow and Heritage are not yet confirmed as Licensees in those blocks.

We apologize for the last minute response.

Best regards,

Reuben Kashambuzi
COMMISSIONER

APPENDIX TO ENCLOSURE 1: HEARING COMMENTS

4. FROM PETRAD:

Comments to Mid Term review of Project 0329

These comments are in addition to what Ole Fredrik Ekern (OFE) has given on this project. There is no need to repeat what he has already said, and we are in agreement of.

It is interesting to note that the review job was given to a company which never has done such a job before, has itself been delivering a product to OfU concerning Uganda during the project periode, and shall also within the review evaluate one of their competitors in this sector.

Chapter 02. We feel that the conclusions are written in a negative way, while the comments in the different chapters actually tell about a successful project, with few issues that should have been altered.

In the first part it is mostly negative things mentioned about the establishment of the policy. It is not mentioned here (it is mentioned later) about the important job which was done to involve all the stakeholders, and all the meetings and workshops arranged so as many as possible could be heard about the different issues the policy document contains. This is not usual to do in many countries and should be mentioned in the first part of the summary.

The delay of the approval of the policy is covered with almost half a page in the summery, and much more later in the document, even if this is caused by not controllable factors, and the fact that approvals of such important documents in most countries, including our own, takes time.

In point two it is mentioned why the programme is directed towards PEPD, and this is not correct. It was chosen because PEPD was the institution in Uganda which is responsible for the management and administration of the upstream petroleum sector.

The point about Developing new legislation is written in a very negative way, and talkes mainly about delays. The work done so far is very good, and the establishing of a working group with people from different ministries is an important matter here.

In the next point (and also later) it is very much talk about late invoicing from Petrad, even if AdB was told that this was only in 2007, due to Petrad's establishment of a new accounting system. We do not invoice late without a reason, and that should also be mentioned.

It is under "Programme framework – progress", mentioned that the Programme originally was too expensive, without explaining this further. This needs more

explaining. Compared to programmes in other countries, the Uganda project has a very low admin. cost.

Chapter 3. I agree with OFE that budget expansion was available, and strange that they were not given to AdB. However, I was interviewed last of all the interviews AdB was making, and at that point in time, not many days before they were due to deliver the review, they did not know that a contract between MEMD and Petrad existed. This contract should have been an important background for the review, and they were given a copy of the contract from me at that late stage of their work.

Chapter 6. In 6.3. and the table 6.3.3. AdB is saying "It is recommended that the Norwegian legal consultant is closely and timely involved in this process." This is exactly what they are, and have been from the day they started the work, so I don't know what is meant here.

In 6.2 and 6.3 it is pointed out that the review of PSA should have started. We disagree. It is recommended that the law is finished and then the work on the PSA starts, both because they shall be closely linked, and because it will be the same working group and the same consultant which should be working on both.

Chapter 7. About the data management part; AdB was told when they were here that a plan for these data management activities was established, and that many activities would be taking place in the spring and autumn 2008, including a visit to Norway. The way it is written is very negative, while activities are taking place in accordance to receiving capacity.

Chapter 8 and 11.3. When AdB was here they were told that it was delays in invoicing to Uganda (as to everybody else) in 2007 because Petrad was changing to a different accounting system and company. This took longer than expected, and therefore the preparation of invoices suffered. The information about this should be included in the review. AdB was also told that this was not the case in 2006 and not in 2008. It should not be changed to monthly invoices, as AdB suggests, because this would really effect the work load on PEPP in a negative way. Also, changes in payment to Norwegian consultants should not be changed in the way suggested by AdB, because that would be an unnecessary difficulty for them. In addition, our experience now is that it is also practical to be able to do payments from Norway when it comes to some purchases of equipment, because Uganda is not easily trusted payer in other parts of the world.

Chapter 11.7. It is interesting to see in Figure 1 in this chapter that AdB is suggesting the same organisational structure as we have had in this project up to now, except the division into the three different issues, Resource, Environment and Revenue. We had all three issues in one, while the structure was the same.

It is also interesting to see in Figure 3 (there is no figure 2) that Petrad is not present anywhere in the organisation. That means carry on with totally new people, and leaving the history and the experience from 13 years work in the country behind. To us that seems like an inefficient way of continuing a successful project.

APPENDIX TO ENCLOSURE 1: HEARING COMMENTS

5. RESPONSE FROM ARNTZEN DE BESCHE TO PETRAD'S COMMENTS

Our response to Petrad's comments follows below, specifically addressing statements in the Petrad hearing document, highlighted as bullet points. NORAD has asked that – in addition - we include a response of theirs, also addressing the Petrad comments. The NORAD response (in Norwegian) follows immediately below our response.

- *“It is interesting to note that the review job was given to a company which never has done such a job before, has itself been delivering a product to OfU concerning Uganda during the project periode, and shall also within the review evaluate one of their competitors in this sector.”*

Remark:

With regard to the experience of Arntzen de Besche in petroleum assistance programmes to governments in oil and gas producing countries as well as countries with mining industries, we have had such assignments in countries including Tanzania, Zanzibar, Bangladesh, Zambia, Mauritania, Sudan, Afghanistan and Bolivia. In Norway, we have on the government side been legal advisors to the Ministry of Petroleum and Energy and the Petroleum Safety Authority for a number of years. We have been advising oil companies for more than 40 years. Our firm has carried out a number of reviews of authorities and companies (including “granskninger”).

We do not understand the comment in respect of our firm evaluating one of our competitors in this sector. It is ordinary that consulting firms review the activities of other consulting firms, and for law firms it is even a core business to review work and opinions of law firms, including competing law firms in the same sector.

It is correct that our firm has rendered an opinion on issues relating to cross-border petroleum resources between Uganda and the Democratic Republic of Congo. The opinion did not contain any comment on, or review of, any aspect related to the Programme. Nor did the Mid Term Review include a review of any issues related to the cross-border issues or the opinion we delivered in respect thereof. We are puzzled, therefore, by the mention of this report in a context ostensibly questioning our firm's impartiality for the Mid Term review.

- *“We feel that the conclusions are written in a negative way, while the comments in the different chapters actually tell about a successful project, with few issues that should have been altered.”*

Remark:

We cannot comment on the feelings of a reader, but will point out that chapter 2 contains highly positive comments about PEPD and also highly positive comments about the Norwegian project team. Further, it is one of the objectives of the review to point at areas that can be improved in a continuation of the Programme, which will of course imply that weak points, where they exist, should be addressed. Still, as the

comment correctly points out, the report generally demonstrates a successful project, which in our view also is reflected in chapter 2.

- *“In the first part it is mostly negative things mentioned about the establishment of the policy. It is not mentioned here (it is mentioned later) about the important job which was done to involve all the stakeholders, and all the meetings and workshops arranged so as many as possible could be heard about the different issues the policy document contains. This is not usual to do in many countries and should be mentioned in the first part of the summary.”*

Remark:

In our view the report's overall comment on this point contains several positive remarks about project 1, positive comments about project 2 and neutral comments about project 3. With regard to the policy document, it is a fact that this was approved more than a year after the plan, and this delay has caused the postponement of several activities under project 1. A major element in our Terms of Reference is to review to which extent activities have been implemented in accordance with the agreed work plans. This deviation therefore must be pointed out. The seminars and workshops arranged are addressed positively in the specific comments to this activity in the main part of the report.

- *“The point about Developing new legislation is written in a very negative way, and talks mainly about delays. The work done so far is very good, and the establishing of a working group with people from different ministries is an important matter here.”*

Remark:

This activity is definitely behind schedule, which must be pointed out. We have not stated that the delay has been caused by the project. Instead it is pointed out that the schedule was too ambitious, but the report maintains that the activities to establish ownership among various stakeholder groups in this period were useful.

- *“It is under “Programme framework – progress”, mentioned that the Programme originally was too expensive, without explaining this further. This needs more explaining. Compared to programmes in other countries, the Uganda project has a very low admin. cost.”*

Remark:

It is our view that the activities of the original Programme were too expensive compared to the budget. The fact that the total budget for the 3 year Programme was increased from USD 1,878,000 (approx. NOK 12.2 Million) to USD 3,276,100 (approx. NOK 21.3 Million) (budget exchange rate 1 USD = 6,50 NOK) (see details chapter 3.4) demonstrates this point. Although several new activities were covered by the increased budget, the increase also provided sufficient basis for carrying out original Programme activities (e.g. budget increases for the Programme components 1f, 1g and 2f), as pointed out. All the same we mention that the text of the report has

been adjusted at this point so that the word "expensive" is replaced by the word "expansive".

- *"Chapter 3. I agree with OFE that budget expansion was available, and strange that they were not given to AdB. However, I was interviewed last of all the interviews AdB was making, and at that point in time, not many days before they were due to deliver the review, they did not know that a contract between MEMD and Petrad existed. This contract should have been an important background for the review, and they were given a copy of the contract from me at that late stage of their work."*

Remark:

It is correct that we received the contract between Petrad and the MEMD in the interview with the Petrad representative. The contract is, however, fully taken into account in the report (see chapter 3.1).

- *"In 6.2 and 6.3 it is pointed out that the review of PSA should have started. We disagree. It is recommended that the law is finished and then the work on the PSA starts, both because they shall be closely linked, and because it will be the same working group and the same consultant which should be working on both."*

Remark:

We cannot see that the chapters 6.2 and 6.3 contain a statement as in the comment. In chapter 6.5 it is mentioned that a review of the existing model PSA could have been commenced. We maintain that point. Several elements of the Model PSA can be reviewed irrespective of legislation, in particular the economic elements in the production sharing model as addressed under chapter 6.5.2.

- *"It is also interesting to see in Figure 3 (there is no figure 2) that Petrad is not present anywhere in the organisation. That means carry on with totally new people, and leaving the history and the experience from 13 years work in the country behind. To us that seems like an inefficient way of continuing a successful project."*

Remark:

We do not understand the conclusions and comments made. No institutions outside the public administrative institutions are mentioned in the diagramme neither on the Ugandan nor on the Norwegian side. It is of course up to the authorities of each country to involve other contractors. On the Norwegian side the Embassy, the Oil for Development, and the Co-ordinator are mentioned. The administrative institutions can of course engage Petrad or others. The figure therefore gives no basis for concluding that Petrad is included or excluded, as Petrad's comment wrongly assumes.

APPENDIX TO ENCLOSURE 1: HEARING COMMENTS

6. NORAD'S RESPONSE TO THE PETRAD COMMENTS, WITH PARTICULAR REFERENCE TO THE SECOND PARAGRAPH THEREIN:

"Når det gjelder Petrad's betraktninger til valget av Arntzen de Besche har Norad følgende kommentarer:

- 1. Dersom det er riktig oppfattet at Petrad er av den oppfatning at AdeB ikke skulle være kvalifisert til å gjennomføre oppgaven fordi selskapet ikke har gjort et tilsvarende arbeid tidligere, så er Norad uenig i det synspunktet. Vi er av den oppfatning at et advokatfirma med den erfaring som AdeB kan vise til, fullt ut er kvalifisert til oppgaven.*
- 2. AdeB har utført et oppdrag for Norad i 2006 og rapport ble levert i jan/feb. 2007. Oppdraget omfattet en vurdering av " Agreement on Cooperation for the Exploration of Hydrocarbons of Common Fields entered into between the Government of the Ugandan Republic and the Executive Council of the (then) Republic of Zaire". Norad kan ikke se at den juridiske vurdering som ble utført skulle kunne medføre at AdeB skulle være inhabil eller ha interesser som skulle ekskludere AdeB fra å gjennomføre MTR. Den juridiske vurderingen er på ingen måte knyttet til det programmet som Petrad administrerer og Norad finner kommentaren grunnløs.*
- 3. At et firma - det være seg konsulent- eller advokatfirma - gjennomfører en vurdering av et arbeid hvor en konkurrent har deltatt og utført deler av programmet, ser vi ikke skulle være ekskluderende. Fra Norad sin side har det vært viktig å finne en uavhengig konsulent som kunne påta seg oppgaven. Vi mener at AdeB møter de kravene som Norad stiller til gjennomføringen av en slik oppgave."*

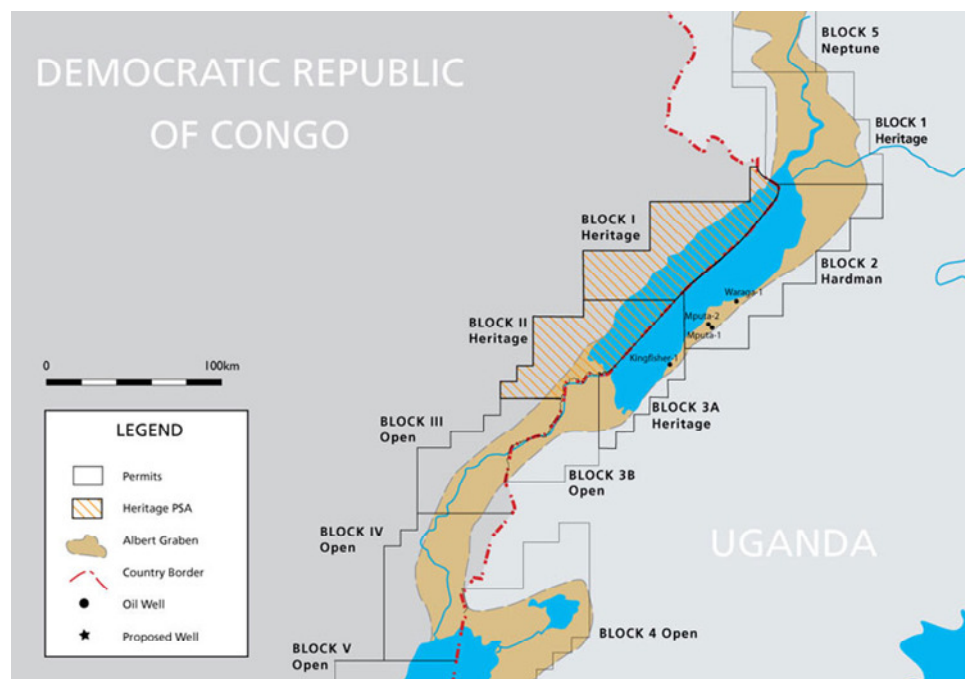
ENCLOSURE 2: ALBERTINE GRABEN – LICENSE HOLDERS

Albertine Graben – License holders

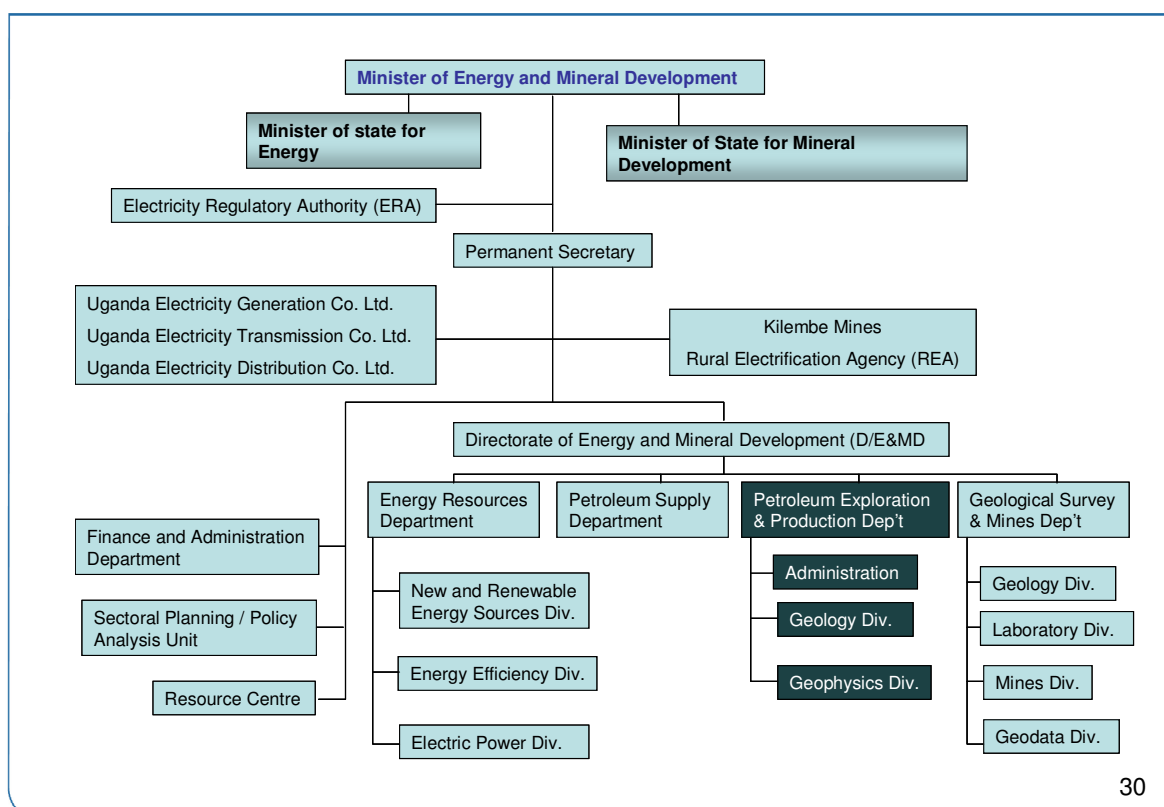
Block	Basin	Licensees	Area km2
Uganda - Block 1	Pakwach Basin	Heritage – 50% (op) Tullow – 50%	4,285
Uganda – Block 2	Lake Albert Basin	Tullow – 100% (op)	4,675
Uganda – Block 3A	Semliki Basin	Heritage – 50% (op) Tullow – 50%	1,991
Uganda – Block 3B	Semliki Basin	Relinquished	1,786
Uganda – Block 4A	Lake Edw. George	Not awarded	3,892
Uganda – Block 4B	Lake Edw. George	Dominion Petroleum – 100% (op)	2,021
Uganda – Block 5	Rhino Camp Basin	Tower Resources – 50% (op) ORCA Exploration Group – 50%	6,040
DRC – Block I	Lake Albert Basin	Tullow–48.4% (op) Heritage– 39.6% COHYDRO – 12%	3,700
DRC – Block II	Lake Albert Basin	Tullow–48.4% (op) Heritage– 39.6% COHYDRO – 12%	2,870

6

ENCLOSURE 3: MAP OF BLOCKS IN AREA BORDERING THE DRC



ENCLOSURE 4: MEMD ORGANISATIONAL STRUCTURE



ENCLOSURE 5: THE FORMAL AGREEMENT BASIS

1. Agreement between the Government of the Kingdom of Norway and the Government of the Republic of Uganda regarding Strengthening the State Administration of the Upstream Petroleum Sector of 6 December 2005 (“the Programme Agreement”)

A G R E E M E N T

between

THE GOVERNMENT OF THE KINGDOM OF NORWAY

and

THE GOVERNMENT OF THE REPUBLIC OF UGANDA

regarding

Strengthening the State Administration of the Upstream Petroleum Sector

WHEREAS the Government of the Kingdom of Norway (Norway) and the Government of the Republic of Uganda (Uganda) 31 January 2001 signed a Memorandum of Understanding concerning development co-operation 2001-2005,

WHEREAS in the said MoU support to inter alia institutional development in the energy sector has been given priority under private sector development and economic growth as one of the main areas of support,

WHEREAS Uganda in letter dated 1 June 2005 has requested Norway for support to strengthening of the state administration in the energy sector, and

WHEREAS Norway has decided to comply with the request,

NOW THEREFORE Norway and Uganda have agreed as follows:

Article I Scope and Objectives

1. This Agreement sets forth the terms and procedures for Norway's support to strengthen the State administration of the upstream petroleum sector ("the Petroleum Component") and to the planning of a capacity programme for the State administration of the electricity/energy sector ("the Electricity Component") - both components hereinafter referred to as "the Programme".
2. The Goal of the Petroleum Component is an efficient state administration of the upstream petroleum sector, capable, in a sustainable manner, of planning, promoting and monitoring oil company investments in petroleum exploration and production, and managing state interests and revenues to the benefit of the economy and people of Uganda.

The Purpose of the Component is to strengthen the State petroleum administration in Uganda with regard to policy, institutional framework and administrative functions, to

strengthen the planning and regulatory functions in PEPD and to study the conditions necessary for commercial development of oil and/or gas in Uganda.

The Outputs and Inputs for the Petroleum Component are outlined in the agreed programme summary enclosed as Annex I to this Agreement, and further elaborated together with indicators and assumptions in the Programme Document "Strengthening of the State Administration of the Petroleum Sector in Uganda", dated September 2005.

3. The Goal of the Electricity component is an efficient state administration of the electricity sector, capable, in a sustainable manner, of planning, promoting and monitoring public and private investments in the electricity sector to the benefit of the economy and people of Uganda.

The Purpose of the Component is to elaborate a capacity building programme plan for the State electricity administration in Uganda with regard to policy, institutional framework and administrative functions, including planning and co-ordinating functions.

The Outputs and Inputs of the Component are outlined in the agreed programme summary enclosed as Annex II to this Agreement, and these will be further detailed in workplans and terms of references for the technical assistance and logistical support activities to be agreed between the parties.

4. The Parties may agree on extending existing or including new Programme elements within the Programme, as well as on re-allocating funds within the Programme. Any such agreement shall be in writing, e.g. recorded in the Agreed Minutes from the consultations mentioned in Article VI.

Article II

Co-operation - Representation

1. The Parties shall communicate and co-operate fully with the aim to ensure that the Goals and Purposes are successfully achieved.

The Parties further agree to co-operate on preventing corruption within and through the Programme, and undertake to take rapid legal action to stop, investigate and prosecute in accordance with applicable law any person suspected of misuse of resources or corruption.

2. Uganda shall, through MEMD as implementing ministry be responsible for implementing the Programme.
3. In matters pertaining to the implementation of the Programme, the Norwegian Ministry of Foreign Affairs and the Ministry of Finance, Planning and Economic Development shall be competent to represent Norway and Uganda respectively.
4. All communication to Norway in regard to the Agreement shall be directed to the Royal Norwegian Embassy in Kampala.

Article III Contribution of Norway

1. Norway shall, subject to Parliamentary appropriations, make available to Uganda a financial grant not exceeding NOK 15,000,000 (Norwegian kroner fifteen million) (the Grant) to be used exclusively to finance the Programme in the planned period 2005 - 2008.
2. Any accrued interests on the Grant may be used for the benefit of the Programme if agreed on by the Parties in writing.
3. Any unspent disbursed funds and accrued interests shall be returned to Norway upon completion of the Programme.

Article IV Contributions and Obligations of Uganda

Uganda shall be responsible for implementing the Programme, and shall hereunder:

1. Have the overall responsibility for the planning, implementation, reporting and monitoring of the Programme,
2. provide sufficient qualified local personnel, and all financial and other resources that may be required over and above the Grant and the contribution of external consultants, for the successful achievement of the Outputs stated in Annex I and II to this Agreement,
3. ensure that the Grant is used according to approved work plans and budgets,
4. appoint Programme and Project Managers for the Petroleum Component to be responsible for the execution of agreed annual work plans and budgets and for reporting to the Annual Meeting,
5. appoint a Programme Manager for the Electricity Component to be responsible for the execution of agreed annual work plans and budgets and for reporting,
6. ensure that Programme funds, which shall include any accrued interests, are properly accounted for, and that the Grant is reflected in the plans, budgets and accounting of Uganda,
7. promptly inform Norway of any circumstances that interfere or threaten to interfere with the successful implementation of the Programme,
8. undertake the obligations set out in Annex III to this Agreement with regard to expatriate technical assistance personnel and contractors provided by Norway,
9. defray any customs duties, sales taxes, withholding tax and other taxes, fees and levies on all equipment, materials and supplies financed by the Grant and imported into Uganda for the benefit of the Programme,

10. grant all permits, import licences and foreign exchange permissions that may be required,
11. permit representatives of Norway to visit any part of Uganda for purposes related to the Agreement and examine any relevant records, goods and documents,
12. enter into contracts with the International Programme for Petroleum Administration (Petrad) and the Norwegian Water Resources and Energy Directorate (NVE) regarding implementation, co-ordination and quality assurance of the technical input to the two respective Programme Components. A copy of the contracts and any major subsequent amendments thereof shall be submitted to Norway for approval before entering into force,
13. submit detailed terms of reference for technical assistance activities carried out under the Electricity Component of the Programme to Norway for approval.

Article V Disbursements

1. The Grant will be disbursed upon semi-annual written requests from Uganda based on the financial needs of the Programme and on approved work plans and budgets. A first disbursement of NOK 2,500,000 for Programme Component 1 shall, however, be transferred immediately upon signing of this Agreement.

When determining the amount to request for subsequent disbursements, Uganda shall take into account unspent disbursed amounts and income from all sources as well as any accrued interests which the Parties have agreed on using for the benefit of the Programme according to Article III, Clause 2.

Along with the requests Uganda shall state the cash balance of the Programme and submit statement of cash and bank balances from the Programmes accounting records.

2. Funds will be transferred upon Norway's approval of the requests to two separate convertible bank accounts, one for each Programme Components, to be held by the Ministry of Energy and Mineral Development, and shall be made available to the Programme immediately.

Uganda shall immediately, in writing, acknowledge receipt of the funds. The date of receipt shall be stated as well as the exchange rate applied.

3. All disbursements to suppliers of goods or services shall normally be made by Uganda.
4. Norway may in exceptional cases and if considered necessary for the progress of the Programme, upon request from Uganda effect disbursements directly to suppliers for procurement costs incurred under contracts entered into by Uganda. Such disbursements will only be made against requests accompanied by:

- A copy of the contract (if applicable)
- Original and specified invoice from the supplier (including enclosures to such invoice)
- A written approval of the invoices by the Permanent Secretary for Energy and Mineral Development.

Norway shall on an ad hoc basis report to Uganda on payments made according to this clause.

Article VI Annual Meeting

1. For the Petroleum Component, representatives of the Parties shall have an Annual Meeting to be held within the last quarter of each year in order to:
 - Review progress, including results and fulfilment of agreed obligations,
 - discuss and, if feasible, approve annual work plans and budgets,
 - discuss issues of special concern for the implementation, e.g. risk management.

Each of the Parties may include others to participate as observers or as advisors to their delegations.

2. The documentation specified in Articles VII and IX, Clause 1 – 5, shall form the basis for the consultations.
3. The Annual Meeting shall be prepared, called and chaired by the Ministry of Energy and Mineral Development.
4. Main issues discussed and points of view expressed, as well as any decisions shall be recorded in Agreed Minutes.

Article VII Reports

1. For the **Petroleum Component**, Uganda shall submit to Norway the reports and documentation specified in Clause 2 – 5 below.
2. A progress report shall be submitted annually within three weeks before the Annual Meeting. The report shall include the following information:
 - A description of actual outputs compared to planned outputs,
 - a brief summary of the use of funds compared to budget,
 - an assessment of the efficiency of the Programme (how efficiently resources/inputs are converted into outputs),
 - an explanation of major deviations from plans,
 - an assessment of problems and risks (internal or external to the Programme) that may affect the success of the Programme,
 - an assessment of the need for adjustments to activity plans and/or inputs and outputs, including actions for risk mitigation.

3. An annual work plan and budget shall be submitted within three weeks before the Annual Meeting. The work plan shall specify planned outputs, activities and time schedules. The budget shall be activity based and show estimated income from all sources and planned expenditures.
4. Annual financial statements, which have been audited in accordance with Article IX below, shall be submitted within three weeks before the annual meeting, consisting of:
 - A cash flow statement showing cash receipts and expenditure structured as and compared to approved budgets for the previous period as well as accumulated for the Agreement period,
 - a statement of cash and bank balances,
 - relevant notes, including a short description of the accounting policies used as well as any other explanatory material necessary for transparent financial reporting of the Programme,

The financial statements shall give complete and detailed information on the financing of the Programme related to approved budgets and work plans.

5. A final report and a final financial statement shall be submitted within three months after the completion of the Programme.

The final report shall include:

- The topics listed in Clause 2 above for the whole Agreement period,
 - an assessment of the effectiveness of the Programme, i.e. the extent to which the Purpose has been achieved,
 - an assessment of impact (if possible), i.e. the changes and effects positive or negative, planned and unforeseen of the Programme seen in relation to target groups and others who are affected,
 - an assessment of sustainability of the Programme, i.e. an assessment of the extent to which the positive effects of the Programme will still continue after the external assistance has been concluded,
 - a summary of main "lessons learned".
6. **For the Electricity Component**, Uganda shall submit to Norway a financial statement according to the requirements in Clause 4 above and, immediately upon completion of the technical assistance activities and at the latest by June 2006, a final report together with an elaborated capacity building programme for the State administration of the electricity sector. The final report shall include the following information:
 - A description of actual outputs compared to planned outputs,
 - a brief summary of the use of funds compared to budget,
 - an assessment of the efficiency of the Programme (how efficiently resources/inputs are converted into outputs),
 - an explanation of major deviations from plans,
 - an assessment of the quality and relevance of the received technical assistance.

Article VIII Procurement

1. Uganda undertakes to effect all procurements of goods and services necessary for the implementation of the Programme.
2. The procurements shall be performed in accordance with generally accepted procurement principles, good procurement practices and the procurement regulations of Uganda. Norwegian suppliers shall be given the same opportunities as other suppliers to compete for deliveries.

Uganda shall observe the highest ethical standards during the procurement and execution of contracts, and shall ensure in its national legislation adequate and effective means to punish and prevent illegal or corrupt practices.

No offer, gift, payments or benefit of any kind, which would or could, either directly or indirectly, be construed as an illegal or corrupt practice, e.g. as an inducement or reward for the award or execution of procurement contracts, shall be accepted. Invitations to make offers as well as the procurement contracts shall, respectively, include a clause stating that the offer will be rejected and/or the contract cancelled, in case any illegal or corrupt practices have taken place in connection with the award or the execution of the contract.

3. Contracts entered into by Uganda shall be submitted to Norway for information along with a confirmation in writing that the procurement regulations agreed on in Clause 2 above have been adhered to.
4. Uganda shall upon request furnish Norway with all relevant information on its procurement practices and actions taken, and provide access to all related records and documents. Norway may require access to information even during the stage in the procurement procedure when it is restricted to the officers performing the procurement. Restrictions on such information shall be respected until the information can be made public without any risk of detriment to the result of the procurement.

Article IX Audit

1. Audits of the annual financial statements of the Programme shall be performed by the Ugandan Auditor General in accordance with principles for governmental sector auditing.
2. The audit shall be carried out in accordance with international auditing standards. The auditor shall state in the report which auditing standards that have been applied.
3. The audit report shall state the auditor's opinion/findings as to:

- Whether the financial statements present fairly, in all material respects, the Programme's income and expenditures as well as the cash/bank/financial position,
- whether the audit has uncovered material weaknesses in financial systems of financial control or accounting,
- whether the audit has uncovered any illegal or corrupt practices,
- whether funds have been used exclusively to cover Programme expenditures,
- whether receipts and use of funds are properly accounted for,
- whether the Grant is reflected in the budgets and accounting of the Ministry of Energy and Mineral Development,
- whether appropriate internal controls to counteract illegal and corrupt practices have been established and complied with.

Article X

Reviews - Evaluation

1. A mid-term and an end review focussing on progress to date and the effectiveness of the Programme, i.e. the extent to which the Purpose is being/has been achieved, and the quality of technical assistance and training inputs provided by the Programme, shall be carried out. An assessment of the Programme's impact shall be included in the end review.
2. The cost of the reviews shall be covered by Norway over and above the Grant.
3. Norway reserves the right to carry out independent reviews or evaluations of the Programme as and when Norway deems it necessary. The cost for such reviews will be covered by funds over and above the Grant.

Article XI

Reservations

1. Norway reserves the right to withhold disbursements at any time in case e.g.:
 - The Programme develops unfavourably in relation to the Goal and Purpose,
 - substantial deviations from agreed plans or budgets occur,
 - resources to be allocated by Uganda are not provided as agreed,
 - the documentation specified in Articles VII and IX has not been submitted as agreed,
 - the financial management of the Programme has not been not satisfactory,
 - the contract referred to in Article IV, Clause 11, is breached or terminated before all obligations therein are fulfilled.
2. Norway reserves the right to reclaim all or parts of the Grant if Programme funds are found not to have been used in accordance with the Agreement or are found not to be satisfactorily accounted for.
3. Norway has the right to cancel the Agreement or portion of the Agreement, and has the right to demand the cancellation of any contract financed under the Agreement, with immediate effect if it determines that corrupt or fraudulent practices were

engaged in by representatives of Uganda or by a beneficiary of Programme funds during procurement or execution of the contract without Uganda having taken timely and appropriate action satisfactory to Norway to remedy the situation.

4. Before Norway withholds disbursements, reclaims funds or cancels the Agreement, the Parties shall consult with a view to reaching a solution in the matter.

Article XII Distribution of the Agreement

The Parties shall distribute copies of the Agreement to the respective ministries, authorities and other institutions involved in the Programme or otherwise in need of information on its content.

Article XIII Entry into Force - Termination - Disputes

1. The Agreement shall enter into force on the date of its signature, and shall remain in force until the Parties have fulfilled all obligations arising from it. Whether the obligations are fulfilled, shall be determined in consultations by the Parties.
2. Notwithstanding the previous clause, each Party may terminate the Agreement upon three months written notice.
3. If any dispute arises relating to the implementation or interpretation of the Agreement, the Parties shall consult with a view to reaching a solution.

IN WITNESS WHEREOF the undersigned, acting on behalf of their respective governments, have signed the Agreement in two originals in the English language.

Done in Kampala the 6th day of December of 2005.

For the Government of
the Kingdom of Norway

For the Government of
the Republic of Uganda

Bjerg Leite
Ambassador

C. M. Kassami
Permanent Secretary / Secretary to the
Treasury

AGREED PROGRAMME SUMMARY – PETROLEUM COMPONENT**1. Identification of the Programme Component**

- Programme Title/Name: Strengthening of the State Administration of the Upstream Petroleum Sector in Uganda
- Implementing institution: Ministry of Energy and Mineral Development
- Norwegian and/or other Partner institution: Petrad

2. Description of the Programme Component**Goal**

The overall goal of the programme is an efficient state administration of the upstream petroleum sector, capable, in a sustainable manner, of planning, promoting and monitoring oil company investments in petroleum exploration and production, and managing state interests and revenues to the benefit of the economy and people of Uganda.

Purpose

The purpose of the programme is to strengthen the State petroleum administration in Uganda with regard to policy, institutional framework and administrative functions, to strengthen the planning and regulatory functions in PEPD and to study the conditions necessary for commercial development of oil and/or gas in Uganda.

Outputs

The programme is divided into the following three main projects with their respective outputs:

- I. Policy Legal and Regulatory framework
 - a. Petroleum Policy, documented and submitted for approval by Government
 - b. Updated Petroleum law, amended and submitted for approval by Government
 - c. Updated Petroleum Regulations, amended and submitted for approval by Government
 - d. Updated Model Production Sharing Agreement, amended and submitted for approval by Government
 - e. Government institutions identified and established with responsibility for
 - Petroleum Policy
 - Petroleum Legislation
 - Petroleum Regulations
 - PSA
 - Petroleum licensing
 - State equity participation (State Oil Co?)
 - Petroleum revenue collection
 - f. A functioning regulatory and institutional regime established for HSE
 - g. Identified scenarios for possible petroleum revenues and an established understanding in Government for the possible tools and mechanisms to manage petroleum revenues.
 - h. Officers trained and capable of performing the duties of the “new” institutions
- II. Capacity building for PEPD
 - a. An established definition of the resources required to fill the functions of PEPD and a plan outlined to develop these resources
 - b. A fully operational function established for management of the national petroleum data base

- c. A fully operational function established for petroleum resource assessment
- d. The petroleum potential and license opportunities in Uganda effectively communicated to the petroleum industry through promotion
- e. A fully operational function established for the monitoring of oil company activities
- f. Staff trained and capable of performing the tasks of PEPD
- g. A fully operational laboratory established for environmental analyses and staff trained to operate it.

III. Technical and Economic Studies

Government preparedness established for commercial petroleum development through

- a. Documented scenarios developed for gas utilisation in Uganda
- b. Documentation established for the infrastructure required in case of commercial oil and gas development in the Albertine Graben
- c. Documentation established for the scope and nature of the regional East African markets for oil and gas

Indicators

The ultimate indicator of the goal fulfilled is the successful development of one or more oil and/or gas fields in Uganda and the translation of State revenues into economic development and improved conditions for the people in Uganda. Time wise this is well beyond the current 3 year Programme, since the lead-time from discovery until serious State revenues start to flow would be some 5-8 years. A commercial discovery is yet to be made in Uganda.

The indicator of the Programme purpose fulfilled is that Uganda has established, and is able to execute, the key functions of government with regard to State administration of the upstream petroleum sector. Those functions which are not under the responsibility of the Exploration and Production Department shall have a defined institutional setting and clear organisational interaction shall exist between different institutions.

Inputs

- Technical assistance (studies, analysis and strategic guidance)
- Training (on the job and long term)
- Logistical support
- Equipment (laboratory equipment and one vehicle)

3. Overall budget

The external input to the Programme will be financed by Norway alone as indicated in the table below.

		Year 1	Year 2	Year 3	Total	%
I	Policy, Institutional and Legislative Framework	273,000	185,000	126,000	584,000	31
II	Capacity Building for PEPD	282,000	290,000	214,000	786,000	42
III	Technical and economic studies	36,000	37,000	15,000	88,000	5
IV	Petroleum programme management	80,000	75,000	75,000	230,000	12
V	Contingency/Budget Flexibility	70,000	70,000	50,000	190,000	10
	TOTAL BUDGET US\$	741,000	657,000	480,000	1,878,000	100
	TOTAL BUDGET NOK (1 US\$ ≈ NOK 6.5)	4,815,858	4,269,931	3,119,584	12,205,373	

AGREED PROGRAMME SUMMARY – ELECTRICITY COMPONENT**1. Identification of the Programme Component**

- Title/Name: Strengthening of the State Administration of the Electricity Sector in Uganda – Inception/Preparatory Phase
- Implementing institution: Ministry of Energy and Mineral Development
- Norwegian and/or other Partner institution: Norwegian Water Resources and Energy Directorate (NVE)

2. Description of the Programme Component**Goal**

An efficient state administration of the electricity sector, capable, in a sustainable manner, of planning, promoting and monitoring public and private investments in the electricity sector to the benefit of the economy and people of Uganda.

Purpose

A capacity building programme plan for the State electricity administration in Uganda with regard to policy, institutional framework and administrative functions, including planning and co-ordinating functions elaborated.

Outputs

- A functional analysis of the government institutions in the electricity sector carried out
- Capacity needs assessed and a programme for capacity building elaborated
- Incremental steps towards a SWAp to the Ugandan energy sector undertaken

Inputs

- Technical assistance (studies, analysis and strategic guidance)
- Logistical support

3. Overall budget

The external input to the component will be financed by Norway alone as indicated in the table below.

		Year I/Total	Percent
I	Functional analysis	110,000	25,5
II	Development of a capacity building programme	137,000	31,9
III	Follow up of the energy SWAp recommendations	100,000	23,3
IV	Electricity programme management	40,000	9,3
	Contingency	43,000	10,0
	TOTAL BUDGET US\$	430,000	100,0
	TOTAL BUDGET NOK (1 US\$ ≈ NOK 6.5)	2,794,627	

**OBLIGATIONS IN REGARD TO EXPATRIATE TECHNICAL ASSISTANCE
PERSONELL AND CONTRACTORS**

1. Uganda shall:
 - a) Defray the cost of income tax related charges to expatriate technical assistance personnel and contractors on remuneration paid for the performance of services in Uganda in accordance with the Convention dated 7th September 1999, between Norway and Uganda, for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital.
 - b) Defray the cost of any customs duties and related charges in respect of equipment imported into Uganda for the purpose of the services as referred to in this Agreement. However, if equipment is disposed of in Uganda, the consultant shall pay such duties and charges.
 - c) Grant the expatriate technical assistance personnel the right of free entry and leave Uganda during the assignment period and, without delay, grant entry, exit and other permits.
 - d) Exempt the expatriate technical assistance personnel from registration requirements applying to their profession.
 - e) Give the expatriate technical assistance personnel the right to travel within the country in accordance with the provisions made by Uganda. Uganda shall inform the Norwegian Embassy of the provisions and such changes may be made from time to time.
2. In the event of arrest or detention, for any reason whatsoever, of any expatriate person made available by Norway, or of criminal proceedings being instituted against them, the Norwegian Embassy shall be notified by Uganda in accordance with international practice and shall, without delay, have the right to visit the arrested or detained person.

ENCLOSURE 5: THE FORMAL AGREEMENT BASIS

2. Addendum No. 1 to the above Agreement of 5 December 2007

Addendum No. 1 to Agreement between the Norwegian Ministry of Foreign Affairs and the Government of the Republic of Uganda on development cooperation concerning Strengthening the State Administration of the Petroleum Sector

WHEREAS the Norwegian Ministry of Foreign Affairs (MFA) and the Government of the Republic of Uganda (Uganda) have entered into an agreement dated 06.12.2005 on development cooperation concerning Strengthening the State Administration of the Upstream Petroleum Sector (the Agreement),

Whereas the Electricity Component of the Agreement is still being implemented,

WHEREAS Uganda in letter dated 11.12.2006 has requested the MFA for increased support to the Petroleum Component, and the MFA has decided to comply with the request,

WHEREAS the MFA and Uganda have agreed on amending the Agreement,

NOW THEREFORE the MFA and Uganda have reached the following understanding which shall constitute Addendum No. 1 to, and an integral part of, the Agreement:

Article I

1. The MFA shall, subject to Parliamentary appropriations and the terms and procedures of the Agreement and this Addendum, provide an addition to the Grant not exceeding NOK 8,175,300 (Norwegian kroner eightmilliononehundredseventyfivethousandthreehundred) in the planned period from 01.10.2007 to 31.12.2008. Disbursements shall be made upon written requests as stipulated in the Agreement.
2. The Grant shall be used according to the revised Programme Document "Project 0329, Strengthening The State Petroleum Administration Of The Upstream Petroleum Sector In Uganda, Proposal For Programme Expansion", dated December 2006.
3. A revised Agreed Programme Summary for the Programme is attached as Annex I to this Addendum. The revised Agreed Project Summary shall replace Annex I to the Agreement

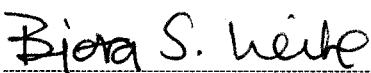
Article II

1. This Addendum shall enter into force on the date of its signature, and shall remain in force until both Parties have fulfilled all obligations arising from it. Whether these obligations shall be regarded as fulfilled shall be determined in consultation between the Parties.

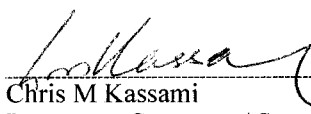
IN WITNESS WHEREOF the undersigned, acting on behalf of the respective Party, have signed the Agreement in two originals in the English language.

Done in Kampala the 5th day of December of 2007.

For the Norwegian Ministry of
Foreign Affairs


Bjørge S Leite
Ambassador

For the Government of
the Republic of Uganda


Chris M Kassami
Permanent Secretary / Secretary to
the Treasury

5/12/07

AGREED PROGRAMME SUMMARY – PETROLEUM COMPONENT INCLUDING PROGRAMME EXPANSION

1. Identification of the Programme Component

- Programme Title/Name: Strengthening of the State Administration of the Upstream Petroleum Sector in Uganda
- Implementing Institution: Ministry of Energy and Mineral Development
- Norwegian and/or other Partner Institution: Petrad

2. Description of the Programme Component

Goal

The overall goal of the programme is an efficient state administration of the upstream petroleum sector, capable, in a sustainable manner, of planning, promoting and monitoring oil company investments in petroleum exploration and production, and managing state interests and revenues to the benefit of the economy and people of Uganda.

Purpose

The purpose of the programme is to strengthen the State petroleum administration in Uganda with regard to policy, institutional framework and administrative functions, to strengthen the planning and regulatory functions in PEPD and to study the conditions necessary for commercial development of oil and/or gas in Uganda.

Outputs

The programme is divided into the following three main projects with their respective outputs:

I. Policy Legal and Regulatory framework

- a. Petroleum Policy, documented and submitted for approval by Government
- b. Updated Petroleum law, amended and submitted for approval by Government
- c. Updated Petroleum Regulations, amended and submitted for approval by Government
- d. Updated Model Production Sharing Agreement, amended and submitted for approval by Government
- e. Government institutions identified and established with responsibility for;
 - Petroleum Policy
 - Petroleum Legislation
 - Petroleum Regulations
 - Production Sharing Agreement (PSA)
 - Petroleum licensing
 - State equity participation (State Oil Co?)
 - Petroleum revenue collection
- f. A functioning regulatory and institutional regime established for HSE and an appropriate emergency preparedness plan developed and implemented.
- g. Identified scenarios for possible petroleum revenues, and an established understanding in Government for the possible tools and mechanisms to manage petroleum revenues.
- h. A new Revenue Management Law drafted and submitted for approval by Government
- i. Officers trained and capable of performing the duties of the “new” institutions

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II. Capacity building for PEPD

- a. An established definition of the resources required to fill the functions of PEPD and a plan outlined to develop these resources
- b. A fully operational function established for management of the national petroleum data base
- c. A new storage facility in the form of a modern data room setup
- d. A fully operational function established for petroleum resource assessment
- e. The petroleum potential and license opportunities in Uganda effectively communicated to the petroleum industry through promotion
- f. A fully operational function established for the monitoring of oil company activities
- g. Staff trained and capable of performing the tasks of PEPD
- h. A fully operational laboratory established for environmental analyses and staff trained to operate it.
- i. An additional server computer will be procured as back-up to the one earlier procured

III. Technical and Economic Studies

Government preparedness established for commercial petroleum development through

- a. Documented scenarios developed for gas utilisation in Uganda.
- b. Documentation established for the infrastructure required in case of commercial oil and gas development in the Albertine Graben.
- c. Documentation established for the scope and nature of the regional East African markets for oil and gas.
- d. Documented Evaluation and Advice on Plans for Development submitted to the Government.
- e. Documented set of actions to be implemented to meet the policy objective of maximising the national participation.

Indicators

The ultimate indicator of the goal fulfilled is the successful development of one or more oil and/or gas fields in Uganda and the translation of State revenues into economic development and improved conditions for the people in Uganda. Timewise this is well beyond the current 3- year programme, since the lead-time from discovery until serious State revenues start to flow would be some 5-8 years.

The indicator of the Programme purpose fulfilled is that Uganda has established, and is able to execute, the key functions of government with regard to State administration of the upstream petroleum sector. Those functions which are not under the responsibility of the Exploration and Production Department shall have a defined institutional setting and clear organisational interaction shall exist between different institutions.

Inputs

- Technical assistance (studies, analysis and strategic guidance)
- Training (on the job and long term)
- Logistical support
- Equipment (laboratory equipment and one vehicle)

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3. Overall budget

The external input to the Programme will be financed by Norway alone as indicated in the table below.

		Year 1	Year 2	Year 2 Expansion	Year 3	Year 3 Expansion	Total	%
I	Policy, Institutional and Legislative Framework	273,000	185,000	333,000	126,000	150,000	1,067,000	32
II	Capacity Building for PEPD	282,000	290,000	345,000	214,000	110,000	1,241,000	38
II I	Technical and economic studies	36,000	37,000	175,000	15,000	75,000	338,000	10
I V	Petroleum programme management	80,000	75,000	60,000	75,000	23,000	313,000	10
V	Contingency/Budget Flexibility	70,000	70,000	91,300	50,000	35,800	317,100	10
	TOTAL BUDGET US\$	741,000	657,000	1,004,300	480,000	393,800	3,276,100	100
1)	TOTAL BUDGET NOK (1 US\$ ≈ NOK 6.5)	4,815,858	4,269,931	6,527,950	3,120,000	2,559,700	21,294,650	
2)	TOTAL BUDGET NOK (1 US\$ ≈ NOK 5.85)			5,872,580		2,302,720		

1) The rate of 1 USD = NOK 6.5 from Year 1.

2) The actual amounts in NOK according to the new exchange rate.

ENCLOSURE 5: THE FORMAL AGREEMENT BASIS

3. Contract between the International Programme for Petroleum Administration and Management (Petrad) and Government of the Republic of Uganda represented by Ministry of Energy and Mineral Development, regarding Institutional Co-operation for the Strengthening of the State Administration of the Upstream Petroleum Sector in Uganda of 1 February 2006.

C O N T R A C T

between

**International Programme for Petroleum Administration and
Management**

and

**Government of the Republic of Uganda
represented by Ministry of Energy and Mineral Development**

regarding

**Institutional Co-operation for the Strengthening of the State
Administration of the Upstream Petroleum Sector in Uganda**

This Contract is entered into this 1st February 2006 between Government of the Republic of Uganda (Uganda) represented by the Ministry of Energy and Mineral Development (MEMD) and the International Programme for Petroleum Administration and Management (PETRAD), herein referred to individually as Party and jointly as Parties.

WHEREAS the Government of the Kingdom of Norway and Uganda have entered into an agreement (the Programme Agreement) dated 6 December 2005 regarding support to Strengthening of the State Administration of the Upstream Petroleum Sector in Uganda (the Programme),

WHEREAS Uganda will be responsible for the implementation of the Programme.

WHEREAS Uganda, as stated in Article IV Clause 12 of the Programme Agreement shall enter into a contract (the Contract), with PETRAD regarding co-operation on the implementation of the Petroleum Component of the Programme (in this Contract referred to as the Programme).

WHEREAS the responsibilities of Uganda will be executed through MEMD

NOW THEREFORE the Parties agree as follows:

Article I

Scope and Objectives

1. This Contract sets forth the terms and conditions of the Parties' co-operation to implement the Programme, which pursues the following Goal and Purpose:

The Goal of the Programme is an efficient state administration of the upstream petroleum sector, capable, in a sustainable manner, of planning, promoting and monitoring oil company investments in petroleum exploration and production, and managing state interests and revenues to the benefit of the economy and people of Uganda.

The Purpose of the Programme is to strengthen the State petroleum administration in Uganda with regard to policy, institutional framework and administrative functions, to strengthen the planning and regulatory functions in the Petroleum Exploration and Production Department (PEPD) and to study the conditions necessary for commercial development of oil and/or gas in Uganda.

2. The Outputs and Inputs for the Programme are outlined in the Agreed Programme Summary enclosed as Annex I to this Contract, and further elaborated together with indicators and assumptions in the Programme Document "Strengthening of the State Administration of the Petroleum Sector in Uganda", dated October 2005. The Programme Budget and the clauses of this contract regarding remuneration, reimbursement and invoicing also covers costs already incurred by PETRAD in relation to the planning/preparation of the programme.

Article II

Programme Management - Consultations

1. The highest authority of the Programme is the Annual Meeting between Uganda and Norway. The Annual Meeting shall be prepared, called and chaired by MEMD, and shall be held within the last quarter of each year in order to:
 - Review progress, including results and fulfilment of agreed obligations,
 - discuss and, if feasible, approve annual work plans and budgets
 - discuss issues of special concern for the implementation, e.g. risk management.
2. Uganda is responsible for the planning, administration and implementation of the Programme tasks, including adherence to budgets and decisions of the parties to the Programme Agreement.
3. A Programme Manager shall be appointed by MEMD and should have a management or senior position. His/her responsibility shall be clearly defined and approved by the Parties.

4. One person shall be appointed by MEMD as Project Managers for each of the three Projects defined under the Programme. The Project Managers' responsibility shall be clearly defined and approved by the Parties.
5. A technical expert shall be appointed by PETRAD to act as a Consultative Resource Co-ordinator and adviser to the Programme. He/she shall work in a co-ordinating and advisory capacity and stay for periods as required in Uganda.
6. MEMD and PETRAD shall form a Programme Co-ordinating Committee (PCC), which shall be responsible for the execution of the agreed work programmes and shall report to the Annual Meeting. The PCC is headed by MEMD (Programme Manager). Other members of the committee shall include the Managers of the Projects and the Consultative Resource Co-ordinator.

The PCC shall:

- Prepare annual work plan and budget to be submitted to the Annual Meeting
 - Prepare reports to the Annual Meeting on progress and the use of funds
 - Make corrective actions as necessary to carry out the Programme
 - Co-ordinate the implementation of the Programme
7. The PCC shall meet quarterly or when deemed necessary by one of the parties. The PCC meetings are called with 2 weeks notice with agenda and documentation. Minutes of the PCC meetings shall be submitted to MEMD, The Norwegian Embassy and PETRAD for information.
 8. A PCC meeting shall be conducted a minimum of 4 weeks before the Annual Meeting each year to discuss the Programme experiences the previous year and to agree upon a detailed Work Plan and Budget for the overall co-operation the following year.
The PCC shall further examine the extent to which implementation and the detailed Project accounts held by MEMD and PETRAD adhere to approved Annual Work Plans and Budgets.
 9. The PCC will seek advice as appropriate from other government institutions or stakeholders with regard to the Programme.
 10. In the implementation of the Programme, including procurement of equipment and services, the Parties shall adhere strictly to the Annual Work Plans and Budgets approved by the Annual Meeting.

Article III

Obligations and Responsibilities of the Parties

1. The Parties shall keep each other informed about all matters of importance to the overall co-operation and the implementation of the tasks to be performed under this Contract.
2. The Parties shall make available sufficient and qualified personnel, which shall carry out their work with the highest professional standards. If any problem arise or is expected to arise, the Party concerned shall notify the other Party immediately in writing.
3. PETRAD has mobilised the following personnel to be in charge of the Programme:

Contract Responsible:	<u>Ellinor Melbye</u>
Consultative Resource Co-ordinator:	<u>Einar H. Bandlien</u>
Alternative Resource Co-ordinator:	<u>Ole Fredrik Ekern</u>
Institutional framework/policy:	<u>Farouk Al-Kasim</u>
Legal and regulatory framework	<u>Bjørn-Erik Leerberg</u>

CVs for the staff named are included in Annex II to this Contract.

Other professional staff will be mobilised as required to meet the demands of individual tasks.

4. MEMD has mobilised the following personnel to be in charge of the Programme

Programme Manager:	<u>Reuben Kashambuzi</u> , Commissioner
--------------------	---

Project Manager	
Policy, institutional and Legislative Framework:	<u>Ernest N.T. Rubondo</u> <u>Assistant Commissioner</u>

Project Manager	
Capacity building for PEPD	<u>Honey Malinga</u> <u>Assistant Commissioner</u>

Project Manager	
Technical and Economic studies	<u>Robert Kasande</u> <u>Principal Geologist</u>

5. Should it become necessary to replace personnel, the Party concerned shall arrange for replacement with a person with comparable experience. The Party requesting replacement shall be responsible for the financial consequences thereof, except in cases when personnel are replaced for reasons of misconduct, incapability to

perform or violation of instructions and local laws and regulations, in which case the Party concerned shall be responsible.

6. While carrying out the assignment, the personnel and entities engaged by either of the Parties shall comply with the laws of the respective countries and their sub-contractors. The respective Party shall take prompt corrective action with regard to any violation by such personnel and entities.
7. Uganda shall:
 - Provide PETRAD with access to all available and relevant reports and data required to undertake its tasks,
 - assist PETRAD in obtaining all necessary permits, licences and permissions referred to in Article IV of the Programme Agreement,
 - provide, free of charge, adequately equipped office accommodation with water main and air conditioning for the personnel of PETRAD and other personnel contracted under the Programme. The office facilities shall be equipped with or have easy access to telephone, internet connections and photocopying facilities,
 - provide secretarial assistance as required for PETRAD personnel,
 - provide transport facilities as follows: PEPD will purchase a vehicle, which can be used by all visitors and project activities. The Programme budget includes operating costs for the vehicle for the duration of the Programme (insurance, diesel, service, maintenance and driver).
8. PETRAD shall:
 - Co-operate fully with Uganda through MEMD to ensure that the tasks referred to in Article I above are successfully accomplished,
 - assist the personnel of Uganda under the Programme in obtaining accommodation facilities when visiting Norway, including visa and other permissions necessary for their stay in Norway.
9. International travel shall be agreed upon by the Parties and shall be in accordance with the current work plan and budget.

Article IV Procurement

1. MEMD undertakes to effect all procurements of goods and services necessary for the implementation of the Programme. MEMD may delegate the procurement responsibility to PETRAD, particularly with regard to the procurement of consultant services.

2. The procurements shall be performed in accordance with generally accepted procurement principles, good procurement practices and the procurement regulations of Uganda or Norway as applicable.

MEMD and PETRAD shall observe the highest ethical standards during the procurement and execution of contracts.

Invitations make offers as well as the procurement contracts shall, respectively, include a clause stating that the offer will be rejected and/or the contract cancelled, in case any illegal or corrupt practices have taken place in connection with the award or the execution of the contract.

3. Contracts entered into by MEMD shall be submitted to PETRAD for information. Contracts entered into by PETRAD shall be submitted to MEMD for information.

Article V Reporting

1. On request, PETRAD shall work with MEMD in preparing the reports referred to in the Programme Agreement, article VI.
2. The PCC shall prepare an Annual Report to MEMD by 15 February each year stating the achievements compared to plans and budgets for the Norwegian Programme input.
3. The Parties shall agree upon procedures for regular exchange of detailed accounts held by MEMD and PETRAD for all activities and procurements carried out under the Programme.

Article VI Remuneration/reimbursement to PETRAD and its personnel

1. Services by personnel of PETRAD carried out in Norway or in Uganda for less than 6 consecutive months (short term personnel), will be remunerated on the basis of the following hourly rates:
 - Contract responsible in Petrad: NOK 850 per hour.
 - Administrative staff in Petrad (secretary and accountant services): NOK 550 per hour.
 - Consultative Resource Co-ordinators as named in Article III Clause 3: NOK 890 per hour.

The rates are applicable through 2006, and will be increased with 5% in 2007.

The rates for other professionals recruited to the project will be determined as per individual contracts or tenders.

The rates are flat, and will not be raised in case of work overtime, etc. Field work shall be remunerated up to a limit of 42 hours per week.

For intercontinental journeys the personnel shall be entitled to a compensation equalling one working day of seven hours each way. Travel time during field work is billable within the weekly limit of 42 hours per week. There will be no other compensation of travel time unless otherwise agreed.

Travel expenses, per diem and night allowances in connection with international travels will be covered in accordance with the applicable Norwegian Government Regulations. Tourist/Economy Class tickets shall be used when practical.

2. Other expenses up to the limits set forth in the budget in Annex I or included in budgets approved by the parties to the Programme Agreement shall be reimbursed at cost, upon documentation. The budget line "Contingency/Budget Flexibility" may only be utilised upon agreement with the MEMD

Article VII

Invoicing

1. PETRAD shall submit invoices every three months (e.g. quarterly) to MEMD for approval and payment. The invoices shall include services provided by PETRAD and goods and services procured by PETRAD on behalf of the Programme.
2. Mechanisms shall be established to provide working capital to finance the costs incurred by PETAD on behalf of the Programme during the three month periods between reimbursements.
3. The PETRAD invoices shall be certified by the Contract Responsible in PETRAD, and shall state that the invoiced expenses are in accordance with the Contract.
4. The time sheets and the original documentation will remain at PETRAD, but copies will be submitted to MEMD. In respect of travels the invoices shall, in addition to the total costs, provide names of persons, duration and purpose for each trip.
5. MEMD shall effect payments directly to the bank account designated by PETRAD within 45 days after the invoice date.

6. If any item or part of an invoice submitted by PETRAD is disputed or subject to question by MEMD, the payment by MEMD of the rest of the invoice shall not be withheld on these grounds.

Article VIII Sub-contracts

1. Any sub-contracts to be entered into by PETRAD and/or MEMD shall be made with duly qualified entities and PETRAD or MEMD shall retain full responsibility for all services it is committed to render under the Contract.
2. All sub-contracts entered into by a Party shall be submitted to the other Party for information.

Article IX Liability

1. MEMD and PETRAD have no liability for damage or loss occurring in connection with the Programme, such as damage or loss due to inexpert use of MEMD's or PETRAD's equipment, faulty computer software or other factors comprised by the Programme according to the present Contract
2. Each of the Parties shall keep the other Party indemnified with regard to damage to its own personnel and damage or loss to its own possessions, irrespective of whether the other Party has contributed to the damage or loss.
3. MEMD shall not be liable – economically or in other ways – to companies or individuals engaged by PETRAD or its sub-contractors.

Article X Copyright

1. The copyright of all documents, etc. prepared under the Contract stays with MEMD. However, the Parties shall not be liable to any royalties for the use of any such documents, provided these are available in the public domain.

Article XI Corruption

1. The Parties declare their commitment to counteract corrupt practices in the execution of the Contract. Further, the Parties commit themselves not to accept, either directly or indirectly, as an inducement or reward in relation to the

execution of the Contract, any kind of offer, gift, payments or benefits, which would or could be construed as illegal or corrupt practice. Any such practice will be grounds for cancellation of the Contract and the Programme Agreement.

2. The Parties undertake to take rapid legal measures in their respective countries to stop, have investigated and prosecuted in accordance with applicable law any person suspected of corruption or other intentional misuse of resources, and shall notify each other of any matters in this respect.

Article XII

Entry into Force – Duration - Amendments

1. This Contract shall enter into force when signed by both Parties and approved in writing by Norway. The contract shall be submitted to the Parties to the Programme Agreement for information. The Contract shall remain in force as long as the Programme Agreement remains in force, or as long as agreed by the Parties.
2. Any amendments to this Contract shall be in writing and be signed by the Parties. Such amendments shall be approved in writing by the parties to the Programme Agreement.

Article XIII

Termination

1. Each Party may terminate this Contract by giving three months' written notice to the other Party and a copy to the parties to the Programme Agreement.
2. Upon receipt of such notice of termination both Parties shall exert their best efforts to bring the work to an end in a rapid, orderly and economical manner, and shall deliver to each other any plans or documents completed as part of the Contract.
3. In the event of termination PETRAD shall be entitled to payment for services satisfactorily performed and expenses properly incurred prior to the date of termination.

Article XIV

Settlement of Disputes

1. If any dispute arises between the Parties relating to the implementation or interpretation of the Contract, there shall be mutual consultations between the Parties with a view to secure a successful implementation of the activities referred to in this Contract.
2. Any disputes which cannot be resolved amicably shall be referred to the parties to the Programme Agreement with a view to reaching a solution.

IN WITNESS WHEREOF, the undersigned, acting on behalf of their respective institutions, have signed this Contract in two originals in the English language.

Stavanger,

Kampala,

For PETRAD

For the Government of the Republic
of Uganda

Øystein Berg
Managing Director
PETRAD

Fred Kabagambe-Kaliisa
Permanent Secretary
Ministry of Energy and Mineral
Development

In presence of:

Annexes:

Annex I	Programme Outline
Annex II	CVs of PETRAD Management and professional staff

Annex I

PROGRAMME OUTLINE

Goal

The overall goal of the programme is an efficient state administration of the upstream petroleum sector, capable, in a sustainable manner, of planning, promoting and monitoring oil company investments in petroleum exploration and production, and managing state interests and revenues to the benefit of the economy and people of Uganda.

Purpose

The purpose of the programme is to strengthen the State petroleum administration in Uganda with regard to policy, institutional framework and administrative functions, to strengthen the planning and regulatory functions in PEPD and to study the conditions necessary for commercial development of oil and/or gas in Uganda.

Outputs

The programme is divided into the following three main projects with their respective outputs:

- I. Policy Legal and Regulatory framework
 - a. Petroleum Policy, documented and submitted for approval by Government
 - b. Updated Petroleum law, amended and submitted for approval by Government
 - c. Updated Petroleum Regulations, amended and submitted for approval by Government
 - d. Updated Model Production Sharing Agreement, amended and submitted for approval by Government
 - e. Government institutions identified and established with responsibility for
 - Petroleum Policy
 - Petroleum Legislation
 - Petroleum Regulations
 - PSA
 - Petroleum licensing
 - State equity participation (State Oil Co?)
 - Petroleum revenue collection
 - f. A functioning regulatory and institutional regime established for HSE
 - g. Identified scenarios for possible petroleum revenues and an established understanding in Government for the possible tools and mechanisms to manage petroleum revenues.
 - h. Officers trained and capable of performing the duties of the “new” institutions
- II. Capacity building for PEPD
 - a. An established definition of the resources required to fill the functions of PEPD and a plan outlined to develop these resources
 - b. A fully operational function established for management of the national petroleum data base
 - c. A fully operational function established for petroleum resource assessment
 - d. The petroleum potential and license opportunities in Uganda effectively communicated to the petroleum industry through promotion
 - e. A fully operational function established for the monitoring of oil company activities
 - f. Staff trained and capable of performing the tasks of PEPD

- g. A fully operational laboratory established for environmental analyses and staff trained to operate it.

III. Technical and Economic Studies

Government preparedness established for commercial petroleum development through

- a. Documented scenarios developed for gas utilization in Uganda
- b. Documentation established for the infrastructure required in case of commercial oil and gas development in the Albertine Graben
- c. Documentation established for the scope and nature of the regional East African markets for oil and gas

Inputs

- Technical assistance (studies, analysis and strategic guidance)
- Training (on the job and long term)
- Logistical support
- Equipment (laboratory equipment and one vehicle)

Overall budget

The external input to the Programme will be financed by Norway alone as indicated in the table below.

		Year 1	Year 2	Year 3	Total	%
I	Policy, Institutional and Legislative Framework	273,000	185,000	126,000	584,000	31
II	Capacity Building for PEPD	282,000	290,000	214,000	786,000	42
III	Technical and economic studies	36,000	37,000	15,000	88,000	5
IV	Petroleum programme management	80,000	75,000	75,000	230,000	12
V	Contingency/Budget Flexibility	70,000	70,000	50,000	190,000	10
	TOTAL BUDGET US\$	741,000	657,000	480,000	1,878,000	100
	TOTAL BUDGET NOK (1 US\$ ≈NOK 6.5)	4,815,858	4,269,931	3,119,584	12,205,373	

ENCLOSURE 6: PART B - THE UPSTREAM PETROLEUM SUB-SECTOR

PART B

THE UPSTREAM PETROLEUM SUB-SECTOR

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The upstream petroleum sub-sector

With today's oil prices around USD\$ 50, the cost of Uganda's annual imports of petroleum products would be some US\$ 260 million. This is equivalent to more than half of the country's export earnings and accounts for some 4 % of GDP. Consumption is estimated to increase at the rate of 5% per annum. This state of affairs is not sustainable in the long term.

Uganda's petroleum potential is manifested by numerous oil seeps in the Albertine Graben. Despite the fact that such rift environments are proven oil provinces in many parts of the world, Uganda's search for petroleum has been unsystematic and discontinuous since 1925.

The drilling of the Buitaba Waki-B1 well in late 1930's was the first attempt to investigate the subsurface. The well penetrated sandstones, shales and conglomerates. An oil shale at a depth of 1200m reported to contain some free oil was confirmation of the existence of source rocks responsible for the numerous oil seeps identified in the Albertine Graben. This shale was reported to have total organic carbon (TOC) of 6.0%. Waki-B1 well further provides evidence of reservoir rocks and possible seals.

The aeromagnetic surveys of 1983/84 and subsequent ground gravity and magnetic follow-up as well as detailed geological mapping have strengthened the evidence of the petroleum potential of the Graben. Source rocks, reservoir rocks and possible seals have been mapped and significant structures identified. Consequently Exploration Areas 2 and 3 have been licensed to Hardman Resources and Heritage Oil and Gas Limited, respectively. Energy Africa Ltd of South Africa is a joint venture partner in both Exploration Areas. Exploration Area 1 was licensed to Energy Africa Ltd. (Tullow Oil Group) and Heritage Oil and Gas Ltd. In July 2004.

The seismic surveys of 1998 and 2001 in Exploration Area 3, Semliki Basin have not only confirmed earlier observations but have properly defined structures and revealed the complexity of the geology of that area and possibly of the whole Graben.

Whereas the aeromagnetic data interpretation suggested basement depth of not more than 4000m, gravity and seismic data interpretation have refined this to about 6,000m.

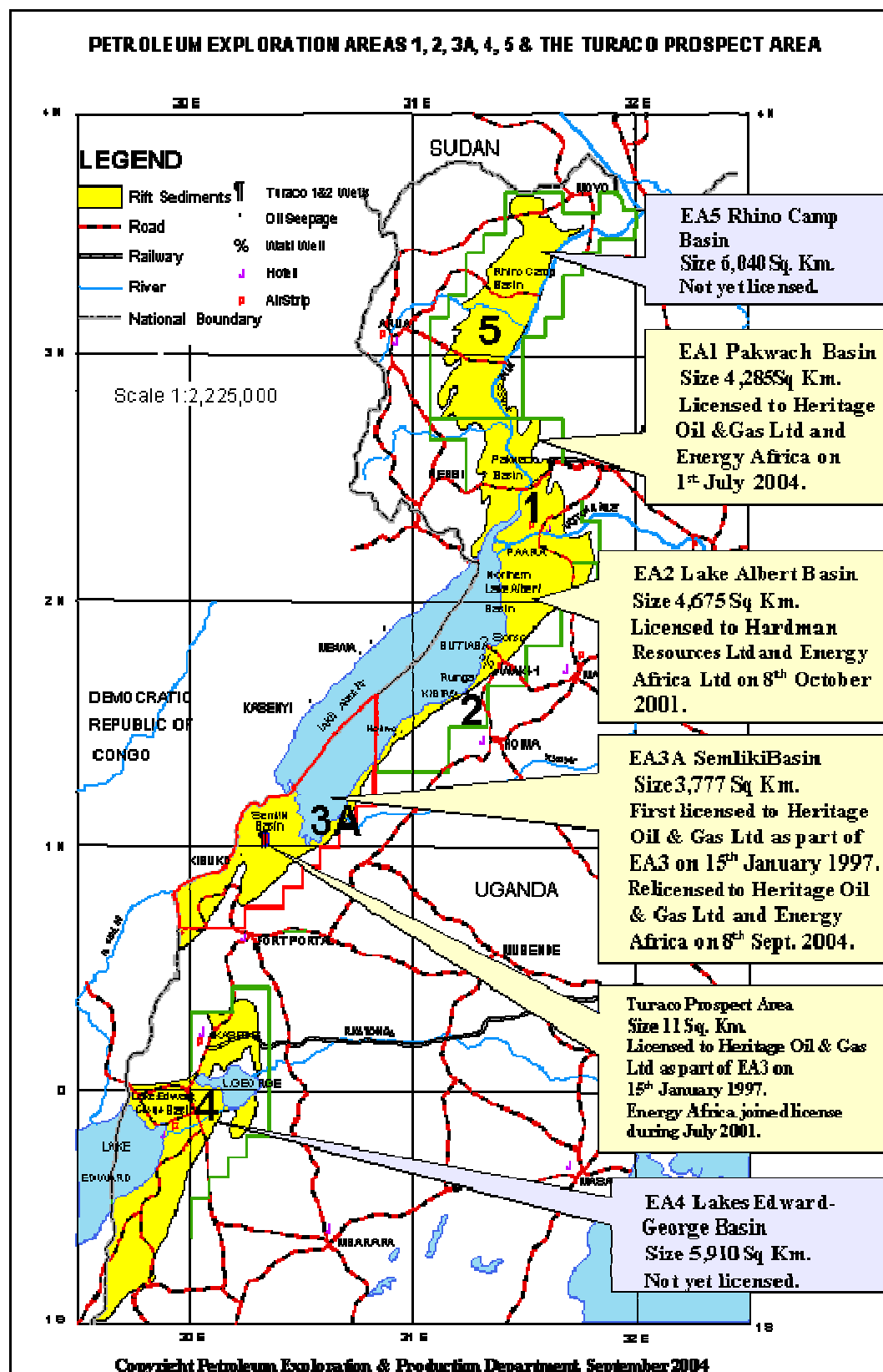
The first well (Turaco – 1) in the Semliki Basin south of Lake Albert, proved the hydrocarbon potential of the basin. After drilling problems in the first well, the Turaco-2 well discovered hydrocarbons at two levels. Turaco-3 was subsequently drilled to test the zones. This is the first hydrocarbon discovery in the East African Rift and several companies are actively pursuing this new exploration opportunity. Uganda has licensed 3 blocks and seismic exploration is ongoing in preparation for further drilling.

In December 2004 Turaco-3 tested the upper level, which was found to be gas bearing. This zone is 350m thick with a net "pay" of 85m. The gas proved to be predominantly CO₂ with only 10-20 % hydrocarbons. The origin of the CO₂ is not certain, but is thought to be associated with volcanic activity in the area. Data from other basins show that the CO₂ content may change both vertically and horizontally and that it is likely to be absent in other traps.

It is possible that further work will lead to commercial deposits of oil or gas. A possible development and production activity will put new regulatory demands on Government and revenue management will become an added challenge. Moreover, the commercialisation of natural gas will require active co-operation and facilitation by Government, both in the case of regional transport solutions and/or in developing a regional market.

Investment in petroleum exploration reached some US\$ 40 million during the last few years, and the current plans from the operating companies indicate similar investments in the years to come.

PETROLEUM EXPLORATION AREAS 1, 2, 3A, 4, 5 & THE TURACO PROSPECT AREA



1.1 Current institutional framework for petroleum exploration and development in Uganda

Uganda has established the Petroleum Exploration and Production Department (PEPD) as a well functioning regulatory body for petroleum promotion, licensing and exploration. PEPD operates as a department under the Ministry of Energy and Mineral Development (ME&MD). The current licenses are held under modern Production Sharing Contracts.

PEPD has enjoyed co-operation with Norway on a variety of issues including exploration and licensing strategy, fiscal modelling, promotion, negotiations, activity monitoring, commercialisation of discoveries and revenue management. Most recently a workshop was held in PEPD on the organisation of the state petroleum administration. The work has been facilitated through a constructive effort by Petrad since 1995. Through Petrad, Norad has approved the use of funds for ad hoc seminars and short term consultancy to meet the urgent requirements of PEPD.

With a possible commercial discovery, the Uganda Government moves to a new level of regulatory responsibilities and policy challenges. This situation warrants a more comprehensive support to develop the necessary national institutions and the vital functions of government.

PEPD contributes to the creation of value for society from petroleum activities by:

- Initiating policy and legislation for petroleum exploration, development and production in Uganda
- Promoting petroleum exploration in the country through the acquisition of geo-scientific data and using these data to attract investment into petroleum exploration and development
- Participating in license negotiations and awards
- Monitoring the activities of oil companies carrying out petroleum exploration, development and production in the country
- Building national capacity in the upstream petroleum sub-sector

1.2 Norway

Norway discovered oil in the late 1960's and an early policy objective was to develop national competence and national equity participation in the petroleum sector. The North Sea turned out to be a rich oil province with many large discoveries. Norway was therefore able to choose licensees among the major international companies and to set tough fiscal and operational terms. All Norwegian oil and gas is offshore and today the daily production is some 3.5 million barrels of oil equivalents.

The challenges of Norway were in part different from those facing Uganda. High education levels, a competent marine and construction sector and a generally well developed economy were notable advantages. Moreover, large next door European markets were eager to take the oil and, more importantly, the gas.

The Norwegian state petroleum administration developed from a starting point of a strong state administration in general and fair access to highly qualified personnel. Norway is considered to have been successful in establishing a competent, predictable and transparent state petroleum administration and has achieved a good balance between the roles of the international oil industry and the national companies. The Norwegian regulatory regime is comprehensive with large emphasis on health, safety and environment. Norway is considered a good reference on revenue management.

The starting point and challenges of Norway and Uganda may be quite different, but the principles of good governance are the same. Norwegian companies and institutions have developed broad international experience through commercial activities and through development co-operation. Norway has successfully assisted petroleum sector development in a number of countries in Africa, Asia and Latin America. Some countries, such as Tanzania and Mozambique, have challenges not unlike those in Uganda.

Petroleum Sector Objective

The main objective of the Co-operation Programme is to ensure that possible petroleum resources are administrated in a way that contributes to sustainable development of the national economy and welfare of the people in Uganda.

The Programme is specifically aimed at strengthening the state petroleum administration in Uganda with regard to policy, institutional framework and administrative functions. The Programme has particular emphasis on the commercialisation of natural gas, since gas discoveries are likely and may require active government intervention to be commercially developed

Co-operation in support of the state administrative functions shall be based on experience from Norway and other petroleum development areas with challenges similar to those in Uganda.

Complementing co-operation programmes

On the petroleum sub-sector there is currently one project with GEUS of Denmark: Assessment of the needs to establish an environmental laboratory in PEPD to analyse the effects of possible oil spills or pollution from petroleum activities. The project is financed from Danish trust funds with UNDP and apart from laboratory needs, the TOR includes capacity building in terms of training courses for staff at PEPD. The purchase of proposed new equipment is not part of this activity. However, preparations for the procurement (elaboration of specifications and identification of possible donors) are included.

The effort on strengthening PEPD's capacity on environmental analysis and monitoring should be viewed as a positive complement to the proposed Norwegian co-operation. For this reason it is proposed that the budget for Norwegian Co-operation include certain laboratory equipment including:

1. Extraction apparatus
2. Liquid Chromatograph
3. Gas Chromatograph

The UNDP financed activity will provide training and capacity building and ensure co-operation with the National Environment Management Authority (NEMA). NEMA has the responsibility of co-ordinating the various Government agencies within the area of protection and management of environmental resources, and is the lead government agency in oil spill planning and response.

Through this joint activity, PEPD will be able to serve broader environmental monitoring also related to downstream petroleum activities, such as transport and storage of petroleum products.

Summary of Petroleum Programme Contents

The Programme components are grouped in major PROJECTS, subdivided into Activities. In addition, the Programme includes management activities and a necessary strengthening of office capacities.

I POLICY, LEGAL AND REGULATORY FRAMEWORK

- 1.a Oil and Gas Policy
- 1.b Legislation
- 1.c Petroleum Regulations
- 1.d Model PSA
- 1.e Organising the State Petroleum Admin.
- 1.f Health Safety and Environment
- 1.g Revenue Management
- 1.h Training and Advisory Services, New Institutions

II CAPACITY BUILDING FOR PEPD

- 2.a Assessment of Institutional Capacity and Training Needs
- 2.b Data Management
- 2.c Resource Assessment
- 2.d Promotion and Review of Exploration and Licensing Policy
- 2.e Activity Monitoring
- 2.f General Training
- 2.g Laboratory and Facilities

III TECHNICAL AND ECONOMIC STUDIES

- 3.a Gas utilisation in Uganda
- 3.b Infrastructure Requirements
- 3.c Regional Oil and Gas Market

IV PETROLEUM PROGRAMME MANAGEMENT

- 4.a External Management Support
- 4.b Local Administration

V UPDATING OF OFFICE COMPUTER SYSTEM

1.3 Budget summary for the proposed upstream petroleum sub-sector programme

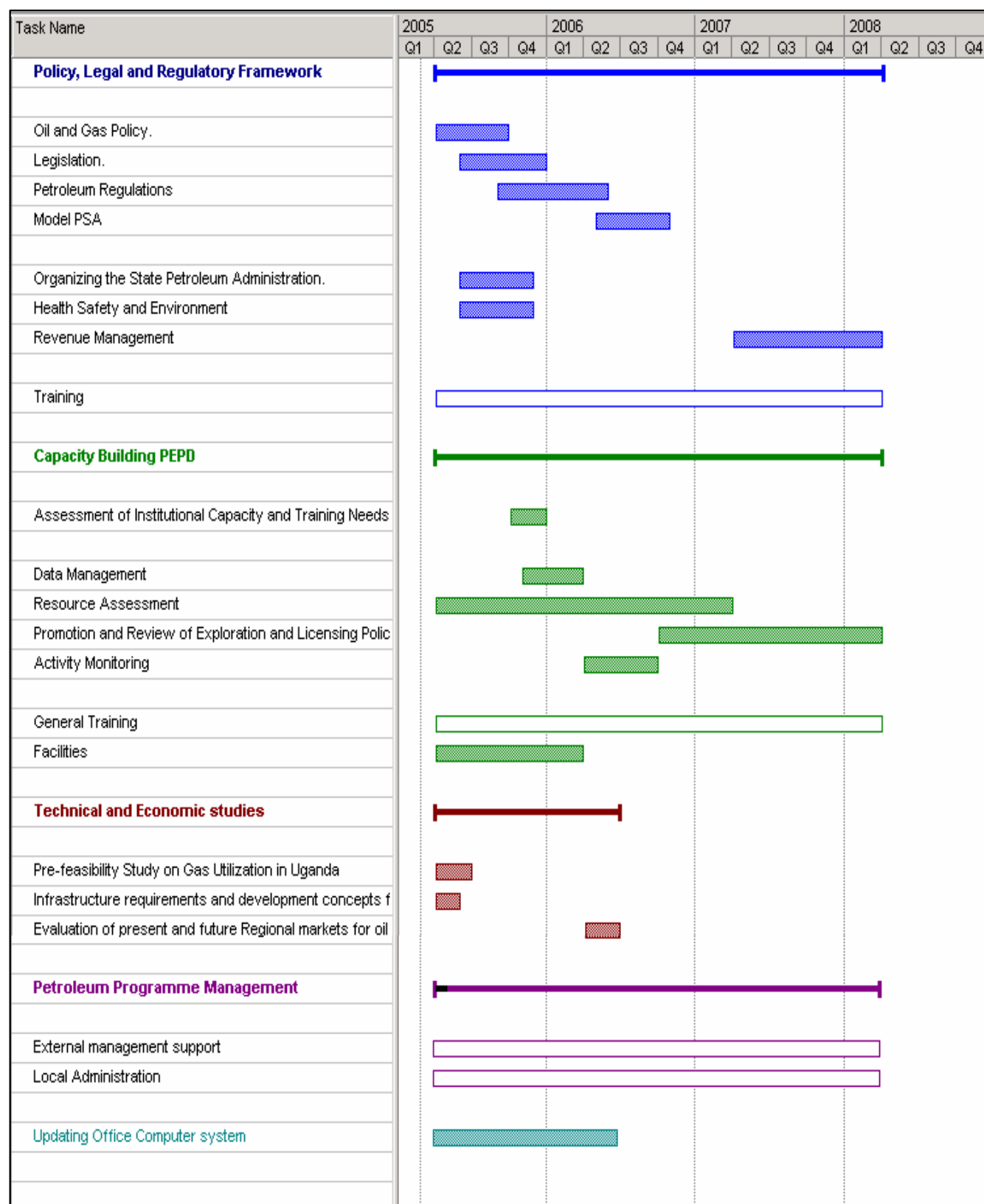
Budget in 000 NOK

		Year 1	Year 2	Year 3	Total	%
I	POLICY, LEGAL AND REGULATORY FRAMEWORK	1 642	730	819	3 191	28 %
II	CAPACITY BUILDING FOR PEPD	1 380	2 004	1 376	4 760	41 %
III	TECHNICAL AND ECONOMIC STUDIES	231	236	100	567	5 %
IV	PETROLEUM PROGRAMME MANAGEMENT	523	483	483	1 489	13 %
V	UPDATING OF OFFICE COMPUTER SYSTEM	351			351	3 %
VI	CONTINGENCY/ BUDGET FLEXIBILITY	454	380	306	1 139	10 %
	TOTAL BUDGET	4 581	3 833	3 083	11 497	100 %

Budget in US\$ (at NOK 6.5 = 1 US\$, figures are rounded)

		Year 1	Year 2	Year 3	Total	%
I	POLICY, LEGAL AND REGULATORY FRAMEWORK	253,000	112,000	126,000	491,000	28 %
II	CAPACITY BUILDING FOR PEPD	212,000	308,000	212,000	732,000	41 %
III	TECHNICAL AND ECONOMIC STUDIES	36,000	37,000	15,000	88,000	5 %
IV	PETROLEUM PROGRAMME MANAGEMENT	80,000	75,000	75,000	230,000	13 %
V	UPDATING OF OFFICE COMPUTER SYSTEM	54,000			54,000	3 %
VI	CONTINGENCY/ BUDGET FLEXIBILITY	70,000	58,000	47,000	175,000	10 %
	TOTAL BUDGET	705,000	590,000	475,000	1,770,000	100 %

1.4 Tentative time lines for individual petroleum sector activities



Upgrading the Institutional and Regulatory Framework for Petroleum Sector Management

1.5 Objective

The objective is to arrive at a policy and regulatory framework that ensures optimal creation of value from the petroleum resources in Uganda, and to identify the appropriate institutional setting for key functions of government.

1.6 Description of activities

1.a Oil and Gas Policy.

The starting point for work on the legal and regulatory framework of petroleum operations is the definition of a petroleum policy. Such petroleum sector policies would be part of a broader national energy strategy

Output

The Programme should support the process of defining policies with regard to:

- National equity participation (revisited)
- Exploration and licensing (revisited)
- Health, safety and environment (revisited)
- Development and depletion
- Gas utilisation
- Other

Norwegian co-operation input

- Petroleum policy workshop
- HSE workshop
- Gas policy workshop

1.b Legislation

The Petroleum (Exploration and Production) Act, Section 150 of the Laws of Uganda 2000, has worked well during promotion and exploration, but needs to be updated particularly when operations enter the development and production phases.

A consultant should be engaged to:

- Identify areas to be amended
- Identify the interface to downstream legislation
- Run seminars and workshops to explain the process of amending the Act.
- Look at the effort made on harmonization of policies, legal- and fiscal regimes in the EAC Partner States

The Ministry and the consultant should identify a team to work on the legislation.

Activity Output

- Identification of specific recommendations to improve the current Act
- A revised Draft Petroleum (Exploration and Production) Act.
- Improved competence in ME&MD and other government bodies on the petroleum legislation and fiscal matters.

Norwegian co-operation input

- Legal consultant
- Petroleum legislation workshop
- Legal/contractual harmonisation
- Training

1.c Petroleum regulations

Whereas the key policy provisions will be included in the Petroleum Act, the more detailed regulatory provision will be expressed in petroleum regulations. In order to direct the available legal resources towards the areas of petroleum operations where further regulations are most important, a legal strategy should be established as an initial activity.

Legal strategy issues:

- Priority areas for regulations – schedule for regulatory work.
- The interface between regulations and petroleum contracts
- The use of international or regional standards
- System regulations needed to facilitate the implementation of the control regime

Technical guidelines should be worked out for priority areas, within the resources available under the Programme.

Downstream regulations

The Programme shall undertake to examine the adequacy of the existing regulations for downstream liquid fuel refining, transportation and distribution. The Programme shall also study the need to further regulate transmission and distribution of natural gas, and propose regulatory strategies in these areas.

Legal and regulatory harmonisation

The Programme shall contribute to the effort to harmonise regulations, which is ongoing in the EAC Partner States.

Outputs

- A strategy for development of petroleum upstream regulations
- Necessary regulations for petroleum production phases under the Petroleum Act
- Regulations as required for downstream petroleum operations
- Contribution to the harmonisation of petroleum legislation in the region

Norwegian co-operation input

- Legal strategy workshop
- Support to drafting upstream regulations
- Input to harmonisation

1.d Model PSA

The Programme should analyse whether the format of the existing Model Production Sharing Agreement, PSA, is appropriate under the revised Petroleum Act, and whether part of the present contract terms can be built into the proposed regulations.

To ease the negotiation process and to facilitate the supervision of the activities under the different active contracts, it may be recommendable to limit the number of negotiable items compared to the existing PSA. If a revision is needed, the programme should contribute to the drafting of an amended Model PSA.

Outputs

A reviewed and amended Model PSA and capability in ME&MD to adjust fiscal and other terms as appropriate in the future.

Norwegian co-operation input

- Review of existing Model PSA
- Support to Model PSA amendment
- Training

1.e Organizing the State Petroleum Administration

A new mandate, vision and mission is required for PEPD in order to govern and administer the development and production phases. The new structure will among others include responsibilities for approval of development plans and state participation, collection of royalty and production share, approval of abandonment plans.

The Programme should identify the functions of Government as reflected in the current petroleum policy and as required under Ugandan law. It should further define realistic scope and content of the functions with regard to available resources in Uganda.

The Programme should evaluate the current structure of the Ministry and specifically the roles of PEPD vis a vis the future needs during development and production. The evaluation should be made with reference to institutional set up in other countries and include recommendations with regard to the possible need to establish a National Oil Company, a Petroleum Authority, a Petroleum Directorate or other.

Recommendations should be specific and include

- Job description
- Number of people required
- Remuneration required
- Administrative tools required

Norwegian co-operation input

- Document required functions of government
- Support the establishment of appropriate institutions
- Prepare detailed plans for institutional strengthening
- Training

1.f Health, Safety and Environment

Petroleum activities in Uganda take place in a unique natural environment that is important both to Uganda and as a world heritage. Petroleum activities must be conducted in a manner that protects people's lives and health and do not harm the environment.

The Programme should define the over-all objectives and priorities for the management of safety and environment and develop adequate technical regulations in pursuance of the Petroleum Act. The Programme should further assist in the development of supervisory methods and improve qualifications of government staff for exercising the supervisory duties efficiently

Activities under the Programme should include

- Seminars/workshops for personnel with key functions related to safety and environment functions
- Conducting and assessing Environment Impact Analyses (EAs)
- Outlining a national Emergency preparedness plan

Outputs

- A system for supervision which reflects the institutional model selected by Uganda and the basic principles of self-regulation (internal control)
- Improved qualifications for exercising the supervisory duties
- Compilation of the EAs performed by the oil companies into an environmental assessment with regard to petroleum developments in the Albertine Graben
- Outline for a national emergency preparedness plan

Norwegian co-operation input

- HS&E strategy
- Government HS&E supervision
- Environmental impact analysis
- Emergency Preparedness Plan
- Training

1.g Revenue management

The discovery of petroleum resources represents increased national wealth that accrues to Government. The revenue may accrue in foreign currency but is most often spent in the domestic economy, which will be much affected. The increased wealth must be spent in order to generate utility for the country. However, petroleum revenues are by nature temporary and must be spent with caution.

The Programme should model possible revenue streams and review appropriate measures to manage revenues for the benefit of today's economy and future generations.

Norwegian co-operation input

- Revenue modelling
- Revenue management workshop
- Training

1.h Training and advisory services for new state institutions

Certain government functions relating to petroleum sector management will be placed outside PEPD. Key policy and licensing functions are held by ME & MD and it is envisaged that rent collection and revenue management may be the responsibility of other state bodies.

The programme should provide for the necessary training for such other government bodies.

Norwegian co-operation input

- Workshops/training
- Advisory services

1.7 Budget summary (US\$)

		Year 1	Year 2	Year 3	Total
I	POLICY, LEGAL AND REGULATORY FRAMEWORK	253,000	112,000	126,000	491,000
	1.a Oil and Gas Policy				
	Petroleum policy workshop	15,000			15,000
	HSE workshop	15,000			15,000
	Gas policy workshop	15,000			15,000
	1.b Legislation				
	Legal consultant	30,000			30,000
	Petroleum legislation workshop	8,000			8,000
	Legal/contractual harmonisation	8,000			8,000
	Training	8,000	8,000	8,000	24,000
	1.c Petroleum Regulations				
	Legal strategy workshop	8,000			8,000
	Support to drafting upstream regulations		15,000		15,000
	Input to harmonisation		8,000		8,000
	1.d Model PSA				
	Review of existing Model PSA	8,000	8,000		16,000
	Support to Model PSA amendment	8,000	13,000		21,000
	Training	8,000	8,000	8,000	24,000
	1.e Organising the State Petroleum Administration				
	Document required functions of government	8,000			8,000
	Support the establishment of appropriate institutions	15,000			15,000
	Prepare detailed plans for institutional strengthening	15,000			15,000
	Training	8,000	8,000	8,000	24,000
	1.f Health Safety and Environment				
	HS&E strategy	8,000			8,000
	Government HS&E supervision	8,000			8,000
	Environmental impact analysis	8,000			8,000
	Emergency Preparedness Plan	8,000			8,000
	Training	8,000	8,000	8,000	24,000
	1.g Revenue Management				
	Revenue modelling			15,000	15,000
	Revenue management workshop			30,000	30,000
	Training			16,000	16,000
	1.h Training and Advisory Services, New Institutions				
	Workshops/training	15,000	15,000	15,000	45,000
	Advisory services	21,000	21,000	18,000	60,000

Capacity Building for Petroleum Exploration and Production Department

1.8 Objective

The objective is to strengthen PEPD to efficiently carry out its roles and functions in petroleum planning and administration.

1.9 Activity descriptions

The Petroleum (Exploration and Production) Act, Section 150 of the Laws of Uganda 2000, mandates the Petroleum Exploration and Production Department (PEPD) to carry out duties related to exploration and development. Currently, this mandate includes;

- Initiating policy and strategy for exploration and development;
- Data interpretation and resource assessment
- Promoting petroleum exploration
- Participating in license negotiations and awards
- Monitoring and regulating petroleum exploration operations
- National capacity building in exploration and production disciplines

2.a Assessment of institutional capacity and training needs
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The planning and regulatory functions of PEPD requires highly specialized skills and sophisticated management tools. A programme to strengthen institutional capacity should be preceded by a diagnostic process that defines the functions and capacities required and identifies the shortcomings.

The diagnostic process will identify tasks and functions for which internal capacity must be developed and tasks that could be outsourced. It will also consider the timing element for developing national capacity and the possible need for interim external support. The assessment shall identify performance requirements and the gap between “what is” and “what ought to be”.

The diagnostic assessment will form the basis for defining appropriate training programmes for PEPD. The assessment should also address the broader administrative capacity of the Ministry in managing petroleum functions.

Output

The diagnostic assessment is an exercise performed with the key staff of PEPD. Output shall consist of clear recommendations including

- Organisational considerations
- Required activities and functions
- Human and material resources required
- Programme for training and education
- Use of external resources
- Sustainability, including manpower retention

Norwegian co-operation input

- Diagnostic analysis
- Plan for training and organisation strengthening

2.b Data Management

The data management activity should establish an archive system and guidelines for data reporting from the operators in order to ensure consistent reporting of data. The main element of the system will be an archive system for storage and retrieval.

The activity should establish standard formats and storage mediums for digital data and guidelines for reporting new data. If necessary existing data should be reformatted and incorporated in a new archive system.

A cost data base should be established to facilitate government control of costs incurred by contractors. Such data bases may be purchased based on specifications identified under this activity

Outputs

Output from this activity should be

- A data management workshop
- A data management system
- A populated data base consisting of all data considered of interest
- Structure and specifications of a cost data base
- A populated cost database with the most used cost elements in exploration, development and operation
- Training of staff to operate the data base

Norwegian co-operation input

- Establish data management system
- Establish or purchase a cost data base
- Converting data
- Equipment cost
- Training

2.c Resource Assessment

A good understanding of the resource base is necessary in order to define policies and strategies that will ensure optimal management of the petroleum resource. In a field development situation a more sophisticated approach to resource assessment is required to satisfy banks and investors.

The activity should provide both the necessary hardware and software tools and methodologies and the necessary training in using them. Data compilation, interpretation, basin modelling and resource inventory generation are work-intensive tasks that will require substantial work by PEPD staff.

Outputs

- Installation of computer software, hardware and peripherals
- A Petroleum Resource Classification System
- Routines for sustainable resource assessment
- An overview of the petroleum resources potential of Uganda
- Training as required

Norwegian co-operation input

- Establish data base
- Interpretation and classification
- Compilation of total petroleum resources
- Software basin modelling and resource assessment
- Training

2.d Promotion and review of exploration and licensing policy

Uganda must continue active promotion to attract risk capital for a responsible and technically up to date exploration of the yet unlicensed parts and in future relinquished areas. If and when a discovery is made, the exploration and licensing policy needs to be adjusted. One would then consider competitive licensing rounds, revised block definitions and revised work programme requirements

The activity should assist in defining an exploration, licensing and promotion strategy and prepare and compile the necessary documentation required in efficient promotion

Such preparations include:

- Model agreement
- Listing and price schedule of available data
- Technical evaluation report
- Definition of areas offered for licensing
- Information on infrastructure and contact point for oil companies
- Time schedule for licensing
- Requirements of applicants including:
 - Financial
 - Technical
- Definition of evaluation criteria

Outputs

The successful output would be a promotion campaign leading to a number of international oil companies buying data and carrying out evaluations of the acreage in question. The goal would be to receive license applications leading to licensing and increased exploration activity.

Norwegian co-operation input (NOK 1000)

- Define exploration and promotion strategy
- Preparation for promotion campaign
- Conducting promotion campaign (consultant hours)
- Assisting the licensing (round)
- Training

2.e Activity monitoring

Procedures are currently in place for exploration activity monitoring by PEPD. As the oil companies proceed to development and production, reporting and monitoring routines and procedures shall be developed. This activity would be co-ordinated with the activity to establish appropriate regulations under the Petroleum Act.

Outputs

Reporting and monitoring routines and training in activity monitoring

Norwegian co-operation input

- Procedures for monitoring exploration activities
- Well planning/ costing software
- Training

2.f General training

The training will in part have been defined through activity **a)**. A training plan should be established in accordance with needs defined in the various projects and activities within the Programme

On the job training will be given when working on the projects in the current Programme. This will constitute the most important training element in the Programme and each activity shall have a defined training component.

Outputs

The intended output will be qualified and motivated employees of PEPD who have an in depth understanding of the petroleum sector and together can manage the sector and constitute a creditable counterpart and partner to the international oil companies

The training shall include:

Formal training (Master programmes and other)

Petrad 8-weeks courses

Short courses and seminars

Tailor made programmes for individuals

Attachment to industry

Norwegian co-operation input

- Short courses and seminars
- Formal training
- Petrad 8 weeks course
- Individual training
- Industry on-the-job-training

2.g Laboratory and Facilities

PEPD is beautifully located in Entebbe, but the offices are not equipped for certain required functions, such as data and sample storage. Such facilities should be established or upgraded as required through the Programme. One particular requirement is capacity to perform environmental analysis and monitoring and an assessment is ongoing with regard to the needs to establish an environmental laboratory in PEPD.

The geochemistry/environmental laboratory should be equipped to analyse the effects of possible oil spills or pollution from petroleum activities, and be able to serve broader environmental monitoring also related to downstream petroleum activities, such as transport and storage of petroleum products.

Output

Data inspection room

Data storage facilities

Workstation facility

Geochemistry laboratory equipment

Training and capacity building on environmental analysis and monitoring

Norwegian co-operation input

- Geochemistry laboratory equipment
- Maintenance
- Other facilities

1.10 Budget summary (US\$)

		Year 1	Year 2	Year3	Total
II	CAPACITY BUILDING FOR PEPD	212,000	308,000	212,000	732,000
	2.a Assessment of Inst.Cap.and Training Needs				
	Diagnostic analysis	8,000			8,000
	Plan for training and organisation strengthening	15,000			15,000
	2.b Data Management				
	Establish data management system		15,000		15,000
	Establish or purchase a cost data base		15,000		15,000
	Converting data	8,000	8,000	8,000	24,000
	Equipment cost	8,000			8,000
	Training	14,000			14,000
	2.c Resource assessment				
	Establish data base	15,000	15,000		30,000
	Interpretation and classification		30,000	15,000	45,000
	Compilation of total petroleum resources			30,000	30,000
	Software basin modelling and resource assessment		54,000	12,000	66,000
	Training	8,000	8,000	8,000	24,000
	2.d Promotion and Review of Expl. and Lic.Policy				
	Define exploration and promotion strategy			8,000	8,000
	Preparation for promotion campaign			8,000	8,000
	Conducting promotion campaign (consultant hours)			15,000	15,000
	Assisting the licensing (round)			15,000	15,000
	Training	8,000	8,000	8,000	24,000
	2.e Activity Monitoring				
	Procedures for monitoring exploration activities		18,000		18,000
	Well planning/ costing software		3,000		3,000
	Training		8,000	8,000	16,000
	2.f General Training				
	Short courses and seminars	15,000			15,000
	Formal training	37,000	38,000	37,000	112,000
	Petrad 8 weeks course	19,000	19,000	19,000	57,000
	Individual training	8,000	8,000	8,000	24,000
	Industry on-the-job-training	8,000	8,000	8,000	24,000
	2.g Laboratory and facilities				
	Geochemistry laboratory equipment	40,000	40,000		80,000
	Maintenance		5,000	5,000	10,000
	Other facilities		8,000		8,000

Technical and economic studies

1.11 Objectives

Given the remote location of possible discoveries and the poorly developed infrastructure and markets in the region, the Government is likely to be required to take an active role in the commercialisation of oil and gas in Uganda.

The objective of the technical and economic studies is to study the key parameters that will decide whether or not a discovery may be commercially developed and establish an understanding of the roles required by the Government to make it happen.

1.12 Description

3. a Study on gas utilization in Uganda, including technical and environmental constraints regarding CO₂ (3 months)

The study should be made on the basis of realistic scenarios with regard to size of possible discoveries. It should make a technical and economic assessment of the most likely gas utilization option(s) in Uganda. The activity should include study tours to neighbouring Tanzania and Mozambique, who have recently commercialized gas production from Songo Songo and Pande respectively.

Indications are that the Turaco discovery contains CO₂ and the study should address technical, economic and environmental implications in commercialising gas with CO₂. The study should include visits to projects where CO₂ is handled.

3.b Infrastructure requirements and development concepts for commercial development of oil and gas in the Albertine Graben

Very large discoveries would make it possible to export oil or gas through pipelines to the coast. Small or medium sized discoveries, which are more likely to occur, would address local or regional markets. The study should assess current transport infrastructure and possible locations for processing facilities, refineries, storage and distribution.

3.c Evaluation of present and future regional markets for oil and gas in Uganda and adjacent countries.

Uganda itself is a very small market. Medium sized discoveries of oil and gas would soon require a larger regional market. The study should assess the size and nature of the regional market, and give an outline of regional options for supply from Uganda of oil and gas based energy and petrochemical products.

Outputs

Each study should be made with participation of professionals from Uganda to ensure transfer of technology and building of competence. The activity outputs shall otherwise be in the form of study reports and workshops to ensure that the results are received and understood by the appropriate authorities.

Norwegian co-operation input

- Consultant input to the three studies
- Contribution to cost of study tours

1.13 Budget for technical and economic studies (US\$)

			Year 1	Year 2	Year 3	Total
III	TECHNICAL AND ECONOMIC STUDIES		36,000	37,000	15,000	88,0000
	3.a	Gas utilisation in Uganda	21,000			21,000
	3.b	Infrastructure requirements	15,000			15,000
	3.c	Regional oil and gas market		22,000		22,000
		Study tours		15,000	15,000	30,000

Petroleum Programme Management

1.14 Objective

The programme management shall ensure that the Programme is carried out in an efficient manner according to the approved work plans and budgets and that the results achieved are properly reported to the involved institutions and the sponsors

1.15 Description

Annual meetings

Annual meetings shall be conducted between the Sponsor and representatives from the Government of Uganda. The annual meeting shall be held during the last quarter of the year and will agree on the annual work programme and budget. The preparation for the annual meeting shall be the responsibility of ME&MD as executing agency.

Steering committee

A steering committee shall be responsible for the execution of the agreed work programmes and shall report to the Annual meeting. The Steering Committee shall meet at least twice a year or when deemed necessary by one of the parties

Programme Manager

The Programme manager shall be appointed by the ME&MD and should have a management or senior position. His responsibility shall be clearly defined and approved by the parties.

Project managers

One person will be appointed by ME&MD as Project manager for each of the three Projects defined under the Programme.

Programme Advisor

A technical expert shall be appointed and act as an Adviser to the Programme. He/she shall be available to assist in a co-ordinating and advisory capacity and stay for periods as required in Uganda.

Transport and facilities

PEPD will purchase a vehicle, which can be used by all visitors and project activities.

The Programme will include operating costs for the vehicle for the duration of the Programme (insurance, diesel, service, maintenance and driver).

PREPD will make office space and office services available to the Programme

Administrative expenditures in PEPD

A certain allowance should be provided for the Programme manager, Project managers, Programme accountant and Programme secretary.

Output

A successful project delivered on time and budget

Norwegian co-operation input

External management support

- Consultative resource co-ordination
- Communication etc.
- Programme laptop computer

Local administration

- Administration and accounting etc.
- Transport
- Administrative expenditure and committees

1.16 Budget for programme management (US\$)

			Year 1	Year 2	Year 3	Total
IV	PETROLEUM PROGRAMME MANAGEMENT		80,000	75,000	75,000	230,000
	4.a	External management support				
		Consultative resource co-ordination	36,000	36,000	36,000	108,000
		Communication etc.	8,000	8,000	8,000	24,000
		Programme laptop computer	5,000			5,000
	4.b	Local administration				
		Administration and accounting etc.	8,000	8,000	8,000	24,000
		Transport	9,000	9,000	9,000	27,000
		Administrative expenditure and committees	14,000	14,000	14,000	42,000

Programme Management Structure

