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The World Bank withholds new lending to Uganda amid donor frustration at the pace of government efforts to improve project implementation. President Yoweri Museveni (1986 - present) calls on ruling National Resistance Movement (NRM) government officials to mobilise unspent donor funds. A proposed East African Community (EAC) ban on the importation of second hand clothes jeopardises Uganda's African Growth and Opportunity Act (AGOA) beneficiary status.

World Bank withholds Uganda lending

The **World Bank** announced on 13 September that it has decided to indefinitely withhold new lending to **Uganda** retrospectively effective from 22 August.¹ The suspension is indicative of broader donor concerns about effective government project implementations. The World Bank said the suspension will allow it and the government to address performance issues including: delays in project effectiveness, weaknesses in safeguards monitoring and enforcement, and low disbursement.² The World Bank finances approximately 60% of development projects in Uganda.³ The World Bank's current portfolio in Uganda amounts to 8.5 trillion Ugandan shillings (US\$) (\$2.5 billion), of which US\$677 billion (\$200m) is grants and the remaining US\$ 6.1 trillion (\$1.8 billion) interest free loans.⁴ It is the loans that the World Bank is withholding.

The World Bank suspended \$265m in already-agreed financing for the **Uganda Transport Sector Development Project** in December 2015. It suspended the project after reports that main contractor **China Railway Seventh Group (CRSG)** had violated international social and environmental standards.⁵

"A CRSG worker got a local girl pregnant. The company paid her off. All of a sudden, they faced countless locals claiming they were pregnant. It's hard to know how much blame can actually be apportioned to the company in this one instance, but it was the final straw in terms of international concerns about compliance."⁶

The World Bank subsequently suspended two other financing packages worth \$400m to other **Uganda National Road Authority (UNRA)** projects.

*"Donor relations are at their very worst. There is so much frustration at the current government. The World Bank in particular. Finance minister **Matia Kasaija** went to the World Bank meetings in spring and shouted at senior officials accusing them of not providing any warning before they cancelled the transport projects. World Bank vice president for Africa **Makhtar Diop** waved 32 letters in his face that the World Bank had sent the government but that went unanswered."⁷*

¹ World Bank press release, 13 Sept 2016.

² World Bank press release, 13 Sept 2016.

³ Daily Monitor, 22 Sept 2016.

⁴ Daily Monitor, 22 Sept 2016.

⁵ Financial Times, 22 Dec 2015.

⁶ Source, business consultant, Kampala

⁷ Source, business consultant, Kampala

The World Bank will decide in December whether to reinstate the financing.⁸ As well as concerns about compliance with international standards, the World Bank and other international financial institutions are increasingly frustrated at the pace of project implementation in Uganda. According to World Bank data, African states on average implement 25% of a development project within four years, while Uganda implements only 10%.⁹ Government ministries, departments and agencies are the implementing partner of all World Bank development projects in Uganda. The government itself ranks the implementation of only 15% externally financed development projects between 2007 and June 2016 as satisfactory and 72% as unsatisfactory.¹⁰ President **Yoweri Museveni** (1986- present) has called on ruling **National Resistance Movement (NRM)** government officials to mobilise unspent donor funds.¹¹ Museveni made the comments on 10 September at a cabinet retreat to discuss government performance.¹² According to Museveni, the government has only mobilised \$400m of the \$1.8 billion that the World Bank has currently allocated to Uganda.¹³ Museveni warned that the World Bank may cancel the unutilised funds, with the government liable to pay outstanding interest payments and other possible financial penalties.¹⁴ Prime minister **Ruhakana Rugunda** blamed all unspent funds on the government's failure to undertake adequate feasibility studies before borrowing donor funds.¹⁵ Museveni, however, acknowledged that corruption slows project implementation.¹⁶

Museveni notably cited education minister and first lady **Janet Museveni** as failing to effectively mobilise World Bank and **African Development Bank (AfDB) Global Partnership for Education (GPE)** funds for a school building project.¹⁷ The government received \$100m funds in 2014/2015 financial year but has not yet constructed a single school.¹⁸ According to the AfDB, half way through the project, the government has only disbursed 21% of the funds.¹⁹ Museveni only appointed Janet Museveni as education minister in June so she was not in office for the majority of the GPE project. The education ministry, which is *"notoriously corrupt... even by Ugandan government standards"*²⁰, is especially important as it is the recipient of the majority of donor funds and involves the most direct interaction between donors and government officials.²¹

US threatens Uganda with AGOA expulsion

The **United States (US)** has warned that Uganda may lose its **African Growth and Opportunity Act (AGOA)** beneficiary status if the **East African Community (EAC)** prohibits the importation of second hand clothes.²² Competition from used Western clothing and **Chinese** imports, power supply, labour issues and credit supply are the main implementation challenges to the government's 2009 national textile policy (NTP). US ambassador to Uganda **Deborah Malac** reportedly told parliamentary speaker **Rebecca Kadaga** on 15 September that the US would view the proposed EAC ban contrary to the free trade provisions of AGOA.²³ The US in August warned that it may expel Uganda from AGOA due to the deteriorating human rights situation in the country (see *ARC Briefing Uganda August 2016*).

⁸ www.chimpreports.com

⁹ Daily Monitor, 22 Sept 2016.

¹⁰ Daily Monitor, 22 Sept 2016.

¹¹ Daily Monitor, 10 Sept 2016.

¹² Daily Monitor, 10 Sept 2016.

¹³ Daily Monitor, 10 Sept 2016.

¹⁴ Daily Monitor, 10 Sept 2016.

¹⁵ Daily Monitor, 10 Sept 2016.

¹⁶ The Observer, 10 Sept 2016.

¹⁷ The Observer, 10 Sept 2016.

¹⁸ The Observer, 10 Sept 2016.

¹⁹ The Observer, 10 Sept 2016.

²⁰ Source, anti-corruption investigator, Uganda

²¹ Source, anti-corruption investigator, Uganda

²² Daily Monitor, 15 Sept 2016.

²³ Daily Monitor, 15 Sept 2016.

The EAC had in February ruled that any ban on second hand clothing imports would not come into force for at least three years.²⁴ Currently, regionally produced clothing struggles to compete against low-cost imports. There is, however, concern that domestic manufacturing sectors lack the capacity to absorb job losses from the ban on the second hand clothes trade and that they lack the capacity to cover the lost imports.

The **Kampala City Traders Association (KCTA)** opposes the ban as it jeopardises AGOA membership, and its members' dependence on the second hand clothes trade.²⁵ KCTA has, however, called on the Ugandan government to introduce new legislation to ensure the proper fumigation of clothes during the importation process and to curb the sale of fake or counterfeit goods.²⁶

Since her appointment in June, trade and industry minister **Amelia Kyambadde** has prioritised the development of the textiles sector.²⁷ This may involve the revision of the poorly-implemented NTP which has failed to increase investment in value-adding manufacturing.²⁸ The NTP requires state ministries, departments and agencies to buy their uniforms from local manufacturers. However, the government has not supported it through enabling infrastructure.

*"The biggest challenge we have in the textile industry in Uganda is lack of commitment from government. For example my factory has a capacity to produce 5,000 pieces of clothes per day but government cannot help me to get market from its institutions like hospitals, schools and even immigration where I would make uniforms for them. The government prefers dealing with foreign investors who can produce 30,000 pieces per day. Generally the government lacks trust in our capacity to produce the required number of pieces per day. The best the government can do is to carry out an evaluation so that they can know our capacity. This will enable them to maybe offer us contracts to supply clothes based on our capacities."*²⁹

Uganda still exports 90% of its cotton as lint (its primary form).³⁰ The export of unprocessed cotton reportedly costs Uganda approximately US\$500 billion (\$147m) annually.³¹ The difficulties facing the textile industry are replicated across the manufacturing sector.

*"I have been forced to send away my 350 workers because of problems with clearing materials. We import materials from abroad but the clearing process is so tedious and as a result our containers of goods get confiscated. The process of clearing goods is too complicated that you can take a whole month moving from office to office trying to clear them and for sure you cannot keep your workers around the factory when there's no work going on. I am actually considering closing down the factory unless the government intervenes and removes the bureaucracy that exists in the clearing of goods. You get business but you cannot fulfill the demand because the goods are stuck in the bond. The clearing process takes a whole month. I actually doubt if I will recall the 350 workers because the clients have cancelled the contracts due to delay in delivering as I had promised them at the time of signing the contract. They withdrew the tender during the one month I spent running up and down to clear the goods."*³²

The manufacturing sector's troubles have resulted in increased calls for the government to introduce protectionist policies.

²⁴ East African, 27 Feb 2016.

²⁵ Daily Monitor, 15 Sept 2016.

²⁶ Daily Monitor, 15 Sept 2016.

²⁷ Daily Monitor, 20 Jun 2016.

²⁸ Daily Monitor, 20 Jun 2016.

²⁹ Source, factory owner, Kampala

³⁰ East African, 10 Mar 2016.

³¹ East African, 10 Mar 2016.

³² Source, factory owner, Nalukolongo

“What is killing the textile industry in Uganda is government’s attitude towards local investors. The government only supports foreigners who are investing here. They are given incentives like tax holidays while us we are being taxed heavily, so how do you expect us to compete with them?”³³

Umeme announces \$2 billion electricity infrastructure plan

Electricity distribution company **Umeme Ltd** said on 22 September that it plans to invest \$2 billion in electricity infrastructure over the next five years.³⁴ While generation capacity has increased rapidly in recent years, electrification rates remain low. Umeme deputy managing director **Sam Zimbe** said it plans to increase grid connections from 900,000 to three million during the next four years.³⁵ The majority of Umeme’s customers are concentrated in the semi-urban corridor linking **Kampala, Entebbe and Jinja**.³⁶ This will increase the access rate from 20% to 40%.³⁷ Umeme projects that the requisite low voltage lines and new connections will cost \$800m.³⁸ Umeme will channel the remainder of the planned investment into strengthening the grid’s backbone infrastructure including new substations and upgrades of medium voltage lines.³⁹ The World Bank’s **International Finance Corp (IFC)** is currently considering providing \$25m in additional financing to Umeme to support its capital expenditure programme. The IFC board is due to discuss the financing on 24 October.⁴⁰ Umeme has held the 20-year concession to manage and operate the assets of **Uganda Electricity Distribution Co Ltd** since March 2005. This was part of a broader unbundling of the power sector that saw the liberalisation of Uganda’s transmission, distribution and generation networks, and the awarding of concessions for the operation of its existing generation assets.

Implications

Despite the government’s commitment to infrastructure development, the implementing capacity of Ugandan ministries, departments and agencies remains poor. While the government has committed to improving project implementation, this will take time and the relationship with donors and development finance institutions will remain tense. Restricted access to international financial institutional concessional debt would force the government to increase non-concessional borrowing to meet its ambitious infrastructure targets.

Structural challenges, including expensive inputs, means the Ugandan manufacturing has not been able to take advantage of AGOA membership. Reducing electricity and transport costs is central to increasing both the cost-efficiency of cotton farms and the broader manufacturing sector.

Increased electrification rates will increase the opportunity for electricity selling making the sector more attractive for investment. Nevertheless, widespread poverty will limit potential increases in electricity consumption without prices decreasing.

³³ Source, factory owner, Jinja

³⁴ Reuters, 22 Sept 2016.

³⁵ Reuters, 22 Sept 2016.

³⁶ Pivotal Sources, 22 Sept 2016.

³⁷ Reuters, 22 Sept 2016.

³⁸ Reuters, 22 Sept 2016.

³⁹ Reuters, 22 Sept 2016.

⁴⁰ Pivotal Sources, 22 Sept 2016.

About Africa Risk Consulting:

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