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President Yoweri Museveni's (1986-present) personal assistant, Uganda People's Defence Force (UPDF) major Edith Nakalema, departs the presidency to undertake a year-long military course in London (United Kingdom). State House is factionalised between officials loyal to Museveni and those loyal to first lady Janet Museveni. The new 29 trillion Uganda shilling (US\$) (\$8.07 billion) budget for the 2017/2018 financial year comes into force. The government signs two oil production-sharing agreements with Nigeria-based Oranto Petroleum International Ltd.

Museveni's personal assistant departs State House

President **Yoweri Museveni** (1986-present) sent his personal assistant, **Uganda People's Defence Force (UPDF) major Edith Nakalema**, to the **United Kingdom (UK)** for a year on 14 June.¹ Nakalema's departure is reportedly linked to infighting within the presidency as Museveni looks to shore up support to stand again in 2021. Museveni approved the UPDF's request for Nakalema to undertake a year-long course military course at the **Shrivenham Defence Academy in London**.² Nakalema's departure reportedly follows a power struggle with Museveni's principal private secretary, **Molly Kamukama**.³ Kamukama was appointed in November 2016 after serving as Museveni's political assistant in his role as chairman of the ruling **National Resistance Movement (NRM)**.⁴ Since Nakalema's departure, Kamukama has reportedly looked to remove officials in the presidency close to Nakalema.⁵

Nakalema was a powerful figure within the presidency as she acted as Museveni's gatekeeper, controlling all access to him by government officials and business executives by managing his diary.⁶ According to Museveni,

*"There is a lady called Nakalema. If you want to see me, you talk to her."*⁷

Controlling access to Museveni is politically sensitive and had made Nakalema unpopular:

*"She had to strictly vet and deny many the opportunity of meeting the president and this angered many people including ministers and army generals. This time they had to offer her money in order for her to leave and go for a course in Britain but what I know is she will not come back to State House [the presidency]. If she returns to **Uganda** after her London training she will be too vulnerable if not in State House because she has angered many generals and powerful people in Uganda. After her military course she will be promoted and deployed in the foreign service as a military attaché to keep her out of State House."*⁸

Nakalema was more powerful than Kamukama's predecessor as principal private secretary, **Mary Amajo**.⁹ Nakalema also played a central role in managing relations between Museveni and the NRM.¹⁰

¹ The Observer, 15 Jun 2017.

² The Observer, 15 Jun 2017.

³ The Observer, 15 Jun 2017.

⁴ The Observer, 15 Jun 2017.

⁵ The Observer, 15 Jun 2017.

⁶ The Observer, 15 Jun 2017.

⁷ Daily Monitor, 7 Jun 2017.

⁸ Source, within presidency, Uganda

⁹ Daily Monitor, 7 Jun 2017.

Nakalema was influential as she is close to Museveni's son, and possible successor, Major General **Muhoozi Kainerugaba Museveni**.¹¹ Nakalema was an officer with the **Special Forces Command (SFC)** when Muhoozi Museveni was SFC commander.¹² Nakalema was responsible for financial management of the SFC.¹³ It was Muhoozi Museveni who recommended his father appoint Nakalema in 2015.¹⁴ According to a source within the presidency, Nakalema was close to first lady **Janet Museveni**.¹⁵

"As an insider I can authoritatively tell you that she was too powerful because she was seconded to the job by the first lady, Janet Museveni, to keep watch over her husband the president. So her work was to keep watch and brief the first lady on the women the president meets."¹⁶

There are tensions within the presidency between those officials loyal to Museveni and those loyal to Janet Museveni.¹⁷ The first lady is looking to build her own political support base ahead of a possible bid for the presidency once Museveni decides to stand down.¹⁸

"Some of those officials who are deployed in State House are either serving the interest of Museveni or his wife."¹⁹

While Nakalema retained Museveni's trust, government officials criticised her as divisive and she had a poor reputation within the presidency.²⁰

*"Nakalema has been a problem in State House. She has been fermenting infighting in State House. By character Nakalema was violent, erratic and paranoid. In one case, she drew a pistol on someone within the precincts of State House. All this got to the president. Following the incident she was disarmed and ordered to the **Kimaka Military Academy in Jinja** but she refused to leave State House because [she knew she has the backing] of the first lady."²¹*

Museveni was reportedly concerned that public criticism of Nakalema might weaken his position as he prepares to amend the constitution to stand again in 2021.

"Succession politics has increased pressure on State House from all sides. Museveni is buying time by making all these changes as he positions himself beyond 2021. There was no strategy in Nakalema's removal from State House. Nakalema was removed because she had caused too much drama and her media wars were causing embarrassment to Museveni."²²

Nakalema was reportedly central to the dismissal of former presidential press secretary **Tamale Mirundi** and former presidential assistant **Sarah Kagingo**.²³ Sources see Kagingo's dismissal as behind Nakalema's departure.²⁴ The dismissal of Kagingo was reportedly linked to tension between the faction within the presidency close to Museveni and the faction closer to Janet Museveni,²⁵

"Nakalema had pushed so many women away from Museveni, including Kagingo. Nakalema chased her from State House and even removed her official car. The reason for Kagingo's

¹⁰ Daily Monitor, 8 May 2015.

¹¹ The Observer, 15 Jun 2017.

¹² The Observer, 15 Jun 2017.

¹³ The Observer, 15 Jun 2017.

¹⁴ The Observer, 15 Jun 2017.

¹⁵ The Observer, 15 Jun 2017.

¹⁶ Source, within presidency, Uganda

¹⁷ Source, senior politician, Kampala

¹⁸ Source, senior politician, Kampala

¹⁹ Source, senior politician, Kampala

²⁰ The Observer, 15 Jun 2017.

²¹ Source, within presidency, Uganda

²² Source, military officer, Kampala

²³ The Observer, 15 Jun 2017.

²⁴ Source, senior politician, Kampala

²⁵ Source, senior politician, Kampala

*removal has up to date never been made public. But she was close to Museveni, she used to travel with him abroad. After Kagingo's departure, it was officials loyal to Museveni that retaliated by convincing the President to also remove Nakalema."*²⁶

There has been fairly high turnover in staff within the presidency since the retirement in 2010 of powerful principal private secretary **Amelia Kyambadde**, a 'historical' close to Museveni. Museveni tends to appoint individuals he knows personally to positions in the presidency.²⁷ This encourages tensions as personalities are more important than job titles:

*"Even some ministers he appoints is not because of their competence or political influence but because they are known to him personally, in other words he has a special relationship with them. This encourages officials to fight for his attention."*²⁸

However, Museveni carefully manages the presidency:

*"It is wrong for people to say that Nakalema was removed from State House because of infighting. In fact there's no infighting in State House because Museveni is in political control. He allows officials to benefit from illegal deals using their State House access as long as they don't threaten his hold on power."*²⁹

Years of appointment by political patronage mean the majority of senior officials in the government are only in post due to their personal links to Museveni. Manoeuvring to succeed him, and the fluctuating fortunes of potential successors, is therefore likely to result in increased turnover of government officials. This will prove detrimental to government stability and policy implementation.

New budget comes into force

The new budget came into force on 1 July.³⁰ The 29 trillion Uganda shilling (US\$) (\$8.07 billion) budget for the 2017/2018 financial year provides for an 11.5% increase in expenditure from the US\$26 trillion (\$7.2 billion) allocated in the current financial year. The most contentious allocation is US\$1.3 trillion (\$362m) for 15 roads to support the oil sector.³¹ Before a vote on the draft budget, the opposition filed a minority report alleging that the government has only conducted feasibility studies for two of the proposed roads.³² The works and transport ministry will receive US\$4.6 trillion (\$1.3 billion), 21% of the total budget.³³ The next largest allocation is interest payments on debt, which will receive US\$2.6 trillion (\$722.5m), 12% of the total budget.³⁴ Education will receive US\$2.4 trillion (\$667m), 11% of the total, and energy and mineral development US\$2.3 trillion (\$640m), 10% of the total.³⁵

The budget is based on a US\$1.6 trillion (\$445m) deficit.³⁶ Disaggregated by ministry, security faces a US\$628 billion (\$174.5m) shortfall, energy and mineral development a US\$517 billion (\$143.8m) shortfall, and works and transport a US\$1.4 billion (\$389,522) shortfall.³⁷ It is unclear whether these deficits will impact current infrastructure projects.³⁸ Parliament's budget committee warned in its report on the budget that total public debt will increase to \$8.72 billion, of which \$5.47 billion

²⁶ Source, senior politician, Kampala

²⁷ Source, senior politician, Kampala

²⁸ Source, senior politician, Kampala

²⁹ Source, within presidency, Uganda

³⁰ East African, 1 Jul 2017.

³¹ The Observer, 1 Jun 2017.

³² The Observer, 1 Jun 2017.

³³ The Observer, 1 Jun 2017.

³⁴ The Observer, 1 Jun 2017.

³⁵ The Observer, 1 Jun 2017.

³⁶ The Observer, 1 Jun 2017.

³⁷ The Observer, 1 Jun 2017.

³⁸ The Observer, 1 Jun 2017.

(62.7%) is external and \$3.25 billion (37.3%) domestic.³⁹ The committee warned that this will make the economy more vulnerable to exogenous shocks, though debt sustainability analyses indicate a low risk of debt distress.⁴⁰

Parliament additionally approved a supplementary budget of USh185.4 billion (\$51.5m) for the current financial year on 1 June.⁴¹ The supplementary budget covers government costs during the 2015/2016 financial year.⁴²

When presenting his budget statement on 8 June, finance minister **Maita Kasaija** confirmed that the government will not implement a cap on interest rates.⁴³ Kasaija is apparently not keen to emulate his **Kenyan** counterpart's response to similarly high interest rates and non-performing loans. Kasaija acknowledged that interest rates and non-performing loans have constrained private sector activity and economic growth.⁴⁴ Interest rates are currently at 23%.⁴⁵ Kasaija, however, said that the government is not considering interest rate regulation.⁴⁶ Instead, the government will look to lower domestic borrowing, introduce new financial products, and increase funding to government-owned banks to lower the cost of credit.⁴⁷ According to Kasaija, the government will decrease domestic borrowing from 2% of GDP to 1% of GDP to avoid crowding out the private sector from the credit market.⁴⁸ New banking tools will include mobile financial services and Islamic banks to facilitate bank efforts to diversify their income streams.⁴⁹ Use of agency banking will mean banks no longer need to open branches, thereby reducing costs.⁵⁰ Kasaija will inject USh50 billion (\$13.9m) into the state-owned **Uganda Development Bank Ltd (UDBL)**.⁵¹ UDBL's capitalisation will reach USh150 billion (\$41.7m), below its target of USh500 billion (\$139m).⁵² Kasaija committed the government to clearing USh300 billion (\$83.5m) outstanding payments to contractors, acknowledging their contribution to non-performing loans.⁵³ Kasaija said, under a new system, government ministries, departments or agencies that delay payments to contractors for more than 14 days will be locked out of treasury payments until the payments are completed.⁵⁴

The **Bank of Uganda (BoU)** (central bank) warned on 11 June about the government's public financial management. The BoU specifically warned that public debt has reached an unsustainable level at USh30.9 trillion (\$8.7 billion).⁵⁵ The BoU has called on the government to desist from future domestic and international borrowing. Kasaija, in delivering his budget statement (see above), said that public debt is equivalent to 33.8% of GDP.⁵⁶ According to Kasaija, this is below the 50% benchmark threshold at which public debt is unsustainable, and that the government considers its debt burden sustainable in the medium to long-term.⁵⁷ However, BoU executive director **Adam Mugume** publically disagreed with Kasaija.⁵⁸ Mugume did not challenge Kasaija's numbers, but

³⁹ The Observer, 1 Jun 2017.

⁴⁰ The Observer, 1 Jun 2017.

⁴¹ The Observer, 2 Jun 2017.

⁴² The Observer, 2 Jun 2017.

⁴³ East African, 8 Jun 2017.

⁴⁴ East African, 8 Jun 2017.

⁴⁵ The Observer, 11 Jun 2017.

⁴⁶ East African, 8 Jun 2017.

⁴⁷ East African, 8 Jun 2017.

⁴⁸ East African, 8 Jun 2017.

⁴⁹ East African, 8 Jun 2017.

⁵⁰ East African, 8 Jun 2017.

⁵¹ East African, 8 Jun 2017.

⁵² East African, 8 Jun 2017.

⁵³ East African, 8 Jun 2017.

⁵⁴ East African, 8 Jun 2017.

⁵⁵ The Observer, 11 Jun 2017.

⁵⁶ The Observer, 11 Jun 2017.

⁵⁷ The Observer, 11 Jun 2017.

⁵⁸ The Observer, 11 Jun 2017.

warned that additional borrowing will increase downward pressure on growth.⁵⁹ Mugume warned this will have two significant impacts with regard to debt sustainability: it will jeopardise the ability of the **Uganda Revenue Authority (URA)** to meet its collection targets, encouraging further borrowing, and will encourage exchange rate depreciation making interest rates higher.⁶⁰ Mugume said government borrowing from the **National Social Security Fund (NSSF)**, which he estimated at 17% annually, is the reason for high interest rates.⁶¹ Mugume welcomed government efforts to reduce domestic borrowing.⁶²

The government has a poor record of budget implementation. Delays to state-led debt-financed infrastructure projects will put pressure on the budget targets and increase the likelihood of further supplementary budgets and increased borrowing. However, Uganda's debt stock is likely to remain sustainable. **China**, Uganda's main creditor, is increasingly risk adverse when it comes to lending. The Ugandan parliament is also demonstrating increased reluctance to approve government borrowing plans.

Government signs production-sharing agreements with Oranto Petroleum

The government signed two oil production-sharing agreements with **Nigeria-based Oranto Petroleum International Ltd** on 14 June.⁶³ These are the first production sharing agreements issued under a competitive oil exploration licensing round, marking a significant milestone in the development of Uganda's oil sector. According to the energy and mineral development ministry, the production sharing agreements cover the **Ngassa Shallow Play** and **Ngassa Deep Play** exploration blocks located to the south of **Lake Albert**.⁶⁴ The chairman of Oranto Petroleum is Nigerian businessman **Prince Arthur Eze**.⁶⁵ Oranto Petroleum and Nigeria-based partner **Atlas Petroleum International** own and operate 20 oil and gas concessions in **Benin, Côte d'Ivoire, Equatorial Guinea, Ghana, Liberia, Namibia, Nigeria, São Tomé and Príncipe, Senegal** and **South Sudan**.⁶⁶ In 2002, Liberia's auditor general officer accused Eze and Oranto Petroleum of paying bribes to influence the award of contracts.⁶⁷

The signature of the production sharing agreements comes after Museveni and his **Tanzanian** counterpart, President **John Magufuli** (2015-present), approved a framework agreement for the proposed \$3.55 billion **East African Crude Oil Pipeline (EACOP)**, which their respective governments signed in **Dar es Salaam** (Tanzania) on 26 May.⁶⁸ The agreement is a key step towards the commercialisation of Uganda's oil reserves. The EACOP will run from **Hoima** (Uganda) to **Tanga Port** on Tanzania's **Indian Ocean** shoreline.⁶⁹ The 1,445 km 24-inch diameter pipeline will be heated so that it keeps highly viscous crude oil sufficiently liquid to flow.⁷⁰ The agreement covers the project's tax incentives, implementation timelines, pipeline specifications and local content requirements.⁷¹ There was concern that a lack of harmonisation between Uganda's and Tanzania's different tax frameworks would deter international lenders.⁷² The agreement notably waives value added tax (VAT) on materials used in the construction of the pipeline, and provides for the application

⁵⁹ The Observer, 11 Jun 2017.

⁶⁰ The Observer, 11 Jun 2017.

⁶¹ The Observer, 11 Jun 2017.

⁶² The Observer, 11 Jun 2017.

⁶³ SweetCrude Reports, 15 Jun 2017.

⁶⁴ SweetCrude Reports, 15 Jun 2017.

⁶⁵ www.ugandaradionetwork.com

⁶⁶ SweetCrude Reports, 8 Mar 2017.

⁶⁷ Africa Confidential, 10 Sept 2015.

⁶⁸ East African, 28 May 2017.

⁶⁹ East African, 28 May 2017.

⁷⁰ East African, 28 May 2017.

⁷¹ East African, 28 May 2017.

⁷² East African, 28 May 2017.

of tax on the repatriation of earnings only after construction is complete.⁷³ Depreciation is set at 5% throughout their lifetime; this is counted as an expense and therefore not taxed.⁷⁴ The agreement stipulates that Uganda will pay an estimated \$12.20 tariff per barrel.⁷⁵ The governments must still agree a host government agreement (HGA) that sets out their respective rights and obligations with regard to the EACOP.⁷⁶ The Ugandan and Tanzanian parliaments will both need to approve the HGA.⁷⁷

Discussions are in progress between the **Ugandan National Oil Co** and the **Tanzania Petroleum Development Corp** to form **Pipe Co**, a special purpose vehicle incorporated in both countries that will own and operate the pipeline, and will negotiate the shareholders agreement, and project financing and transportation agreements.⁷⁸ The proposed 2017/2018 Ugandan budget contains no special provisions for financing the EACOP. Instead, Pipe Co shareholders will fund the pipeline through a mixture of debt and equity, looking to external debt to cover between 60 and 70% of the pipeline's cost.⁷⁹ Pipe Co will pay back international lenders from pipeline revenue.⁸⁰ However, the exact financing structure depends on the completion of the front-end engineering design (FEED) study.⁸¹ In January, Uganda and Tanzania awarded the FEED contract for the pipeline to **United States (US)-based Gulf Interstate Engineering**.⁸² It is expected that the FEED study will take eight months, with a final investment decision expected before the end of the year, and the beginning of engineering, procurement and construction work expected in 2018.⁸³ Construction is due to begin in 2018 and last up to 36 months.⁸⁴

Regulatory and financial challenges remain ahead of the full commercialisation of Uganda's oil sector. This includes the establishment of the joint venture, and successful negotiations over shareholding between the national oil companies and international oil companies that hold stakes. Securing financing, especially for the state-owned entities, may prove especially challenging. The infrastructure deficit along most of the pipeline's route will hinder construction and increase costs.

⁷³ Daily Monitor, 28 May 2017.

⁷⁴ Daily Monitor, 28 May 2017.

⁷⁵ East African, 28 May 2017.

⁷⁶ Daily Monitor, 28 May 2017.

⁷⁷ Daily Monitor, 28 May 2017.

⁷⁸ Daily Monitor, 28 May 2017.

⁷⁹ Daily Monitor, 28 May 2017.

⁸⁰ Daily Monitor, 28 May 2017.

⁸¹ Daily Monitor, 28 May 2017.

⁸² East African, 28 May 2017.

⁸³ Daily Monitor, 28 May 2017.

⁸⁴ Energy Monitor Worldwide, 28 May 2017.

About Africa Risk Consulting:

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