

AFRICA RISK CONSULTING**Uganda Monthly Briefing May 2018**

Uganda Summary 10 May 2018

Parliament passes a resolution formally opposing the United Nations' (UN) planned relocation of its main logistics base from Entebbe to Kenya's capital, Nairobi. Critics claim the government's plan to accept 500 refugees and asylum seekers from Israel will increase social instability. The government signs a deal with a consortium of private companies, paving the way for the construction of the country's first oil refinery. United States (US) ambassador to Uganda Deborah Malac warns the government about its increasing national debt and under-utilisation of its Africa Growth and Opportunity Act (AGOA) facility.

Uganda protests UN logistics base relocation from Entebbe to Nairobi

Uganda's parliament passed a resolution on 9 May opposing the proposal of **United Nations (UN)** secretary general **Antonio Guterres** to move the UN's logistics base from its current location in **Entebbe** to **Kenya's** capital, **Nairobi**.¹ If the relocation goes ahead, it may have a negative impact on Uganda's economy, and may also result in diplomatic tensions between Uganda and Kenya, which is competing for the location of the base.² Guterres recommended to the **UN Advisory Committee on Administrative and Budgetary Questions** on 1 May that the UN relocate its primary operations base in **Africa** from Entebbe to Nairobi as part of UN plans to reduce its 45 regional centres in the world to four.³ Guterres suggested **Hungary's** capital, **Budapest**, and **Mexico City** as additional alternatives to Entebbe.⁴

The UN base has considerable importance to the local economy in Entebbe, and to Uganda in general. The base provides approximately 400 jobs in direct employment, and is also an important source of clientele and business opportunities to local hotels, real estate developers, and other local service providers.⁵ Parliamentary speaker **Rebecca Kadaga** highlighted Uganda's need to keep the UN base:

*"The situation is grave. Kenya [has] the **United Nations Emergency Programme on Immunisation (UNEPI)**, and so many other UN bodies... I think [Uganda has] been paying with blood; we have shed pure blood on this African continent much more than any other country [through extensive involvement in peacekeeping operations]. I think we deserve to be supported."*⁶

Parliament's resolution outlined Uganda's extensive peacekeeping efforts in **East Africa** and the rest of the continent, while pointing to the other UN facilities that Kenya already hosts.⁷ Uganda provides the largest number of troops to the **African Union Mission in Somalia**

¹ VOA, 10 May 2018.

² VOA, 10 May 2018.

³ VOA, 10 May 2018.

⁴ Daily Monitor, 9 May 2018.

⁵ Daily Monitor, 9 May 2018.

⁶ Quoted in the Daily Monitor, 9 May 2018.

⁷ Daily Monitor, 9 May 2018.

(AMISOM) and other peacekeeping missions in the **Central African Republic** and **South Sudan**.⁸ Uganda also hosts refugees from **Ethiopia, Eritrea, Rwanda, Burundi, Sudan**, and the **Democratic Republic of the Congo (DRC)** (see below).⁹

Concerns about the quality of political governance in Uganda under President **Yoweri Museveni's** (1986-present) rule may have influenced the UN's intention to move the base from Uganda to Kenya.¹⁰ There are increasing allegations of corruption, including some in which foreign minister **Sam Kuteesa** is implicated.¹¹ There is also evidence of deteriorating security, mainly involving kidnappings and deaths of foreign investors in 2017 and this year.¹² The UN's decision is reportedly also a result of intense lobbying by the Kenyan government, led by the former Kenyan permanent representative to the UN, **Macharia Kamau**.¹³ If the relocation goes ahead, it will result in considerable diplomatic tensions between Kenya and Uganda, which are already engaged in competition for political and economic dominance in the **East African Community (EAC)** region.

Government's plan to accept refugees from Israel ignites controversy

The government's announcement on 13 April that it is considering taking in 500 refugees and asylum seekers deported from **Israel**¹⁴ ignited controversy in Uganda over the social, political, and economic implications of taking in the refugees. The refugees are mostly from Ethiopia, Eritrea, and Sudan.¹⁵ Uganda currently hosts 1.4 million refugees, most of whom fled from conflict-ridden states such as Sudan and the DRC, and the number is growing.¹⁶ Minister of state for disaster preparedness and refugees **Musa Ecweru** confirmed that,

*"The state of Israel working with other refugees' managing organisations has requested Uganda to allow about 500 Eritreans and Sudanese to relocate to Uganda. The government and ministry are positively considering the request. We already have millions of refugees in Uganda from **Somalia**, and Ethiopia, so the few from Israel would not be a problem to Uganda, as a third party country."*¹⁷

Ecweru disputed claims that Uganda had engaged in secret deals with Israel on the issue.¹⁸ The relief and disaster preparedness minister, **Hillary Onek**, denied rumours that Uganda and Rwanda had secretly agreed to accept the refugees in exchange for weapons and other unspecified financial benefits.¹⁹ However, several sources maintain that the government is motivated by self-interest in accepting the refugees into Uganda.

"Ugandans should unite and block that senseless decision that is being taken for selfish reasons. The [refugees] should not come here because they will influence our politics. You remember some time back we welcomed Rwandese refugees, and [they began]

⁸ Daily Monitor, 11 May 2018.

⁹ Daily Monitor, 11 May 2018.

¹⁰ Source, analyst, London

¹¹ Source, analyst, London

¹² Source, analyst, London

¹³ Tuko, 11 May 2018.

¹⁴ The Observer, 13 Apr 2018.

¹⁵ Reuters, 13 Apr 2018.

¹⁶ The Observer, 13 Apr 2018.

¹⁷ Minister Musa Ecweru, quoted in Reuters, 13 Apr 2018.

¹⁸ The Observer, 13 Apr 2018.

¹⁹ The Observer, 13 Apr 2018.

participating in our local politics. Even those who are coming from Israel will be registered as voters to vote in favour of [President] Yoweri Museveni.”²⁰

The government receives and administers significant contributions of aid for refugees from the UN and several donors. However, there have been reports of corruption in the management of funds.²¹ In February the **European Union (EU)** launched an investigation into allegations that officials from the **Office of the Prime Minister (OPM)** embezzled donor aid through inflating the number of refugees present in Uganda (see *ARC Briefing Uganda March 2018*).²²

Other political commentators have expressed concerns that the influx of refugees has exacerbated social instability in Uganda:

*“The refugees should rather be deported to their country of origin. Since they come with a lot of money to Uganda, they buy off land and displace locals. We shall lose our cultural identity if they are brought to refugee camps in **Bunyoro** here. We have seen this before from Sudanese and Congolese refugees, who use the money from the **United Nations High Commission for Refugees (UNHCR)** to buy off land from poor locals, which causes various forms of social instability and humanitarian crises in the communities adjacent to refugee settlements.”²³*

Uganda’s open-door policy to migrants from neighbouring countries in East Africa has resulted in one of the world’s largest refugee crises. The constant influx of refugees potentially creates conditions for political instability, mainly from competition for increasingly scarce resources in the areas where refugees settle. Local Ugandans’ negative reaction to the influx of refugees also stems from the strong public belief that the government’s decision to accept refugees is a result of secret deals and high-level corruption.²⁴

Government signs \$4 billion oil refinery deal

The government signed a contract on 10 April with a private consortium to construct Uganda’s first oil refinery.²⁵ The contract signifies foreign investors’ confidence in the viability of Uganda’s oil sector and is an important milestone in the development of Uganda’s oil industry.²⁶ The deal is a result of five years of negotiations between the government and private companies.²⁷ Energy and mineral development minister **Irene Muloni** signed the public-private joint venture contract with the **Albertine Graben Refinery Consortium**, led by **United States (US)**-based **General Electric Ltd.**²⁸ Other companies in the consortium are **Italy**-based **Saipem SpA**, **US**-based **Yaatra Ventures**, and **Mauritius**-based private equity fund, **Intra-Continental Asset Holdings**.²⁹ The refinery will produce 30,000 barrels of oil per day (bpd), which will increase to 60,000 bpd, while the pipeline will export 120,000 bpd, which will increase to 180,000 bpd when the refinery meets its daily capacity.³⁰

²⁰ Source, member of parliament, Kampala

²¹ The Observer, 6 Feb 2018.

²² The Observer, 6 Feb 2018.

²³ Source, local leader, Kiryandogo district

²⁴ Source, analyst, London

²⁵ The Observer, 11 Apr 2018.

²⁶ The Observer, 11 Apr 2018.

²⁷ The Observer, 11 Apr 2018.

²⁸ The Observer, 11 Apr 2018.

²⁹ The Observer, 11 Apr 2018.

³⁰ The Observer, 11 Apr 2018.

The consortium will hold 60% of the shares in the joint venture, while the government will hold the remaining 40% through the **Uganda National Oil Company (UNOC)**.³¹ Up to 70% of the project finance will be secured through debt, and project partners will finance the remaining 30%.³² The consortium will also finance all the pre-**Final Investment Decision (FID)** activities, which will amount to \$100m.³³ The consortium reportedly posted a \$2m commitment bond with the government before signing the **Project Framework Agreement (PFA)**.³⁴

Although the deal is a crucial milestone for Uganda's prospects of exporting both crude oil and processed petroleum products in the medium to long term, there are doubts about the consortium's ability to raise the \$4 billion total cost of the project:

"The doubts mainly emanate from the relatively low profile of most of the joint venture partners, with General Electric being the only well known and well-established company. The consortium's low profile would translate to a weaker ability to attract capital, and the necessary expert skill to build the refinery."³⁵

The deal is also a result of several compromises made between the government and the three major oil companies holding licences in Uganda's oil fields: **France-based Total E&P, United Kingdom-based Tullow Oil, and China National Offshore Oil Company (CNOOC)**.³⁶ The three oil companies had preferred a crude oil pipeline from the oil fields in **Lake Albert to Tanzania's port of Tanga**, because of the profitability of crude oil in overseas markets.³⁷ However, the government favoured a local refinery, which would maximise local economic benefits from oil extraction, such as job creation from constructing and operating the refinery, creating downstream industries, and facilitating the availability of cheaper oil products such as gasoline, kerosene, diesel, and by-products such as bitumen, used in road construction.³⁸

The oil refinery deal gives a considerable boost to the development of the oil industry in Uganda. It guarantees the availability of investment for building oil extraction infrastructure, and will attract investment into downstream industries in Uganda.³⁹

US ambassador cautions Uganda over rising debt, under-utilisation of AGOA facility

The US ambassador to Uganda, **Deborah Malac**, warned the government of Uganda to curb its borrowing, because of its sharply increasing national debt.⁴⁰ The growing debt will use a substantial portion of the national budget for debt servicing, which is likely to weaken the government's ability to provide public services.⁴¹ Uganda's external and domestic debt amounted to \$8.7 billion at the end of 2016, and had risen to \$13 billion by June 2017.⁴² The

³¹ The Independent, 10 Apr 2018.

³² The Independent, 10 Apr 2018.

³³ The Independent, 10 Apr 2018.

³⁴ The Independent, 10 Apr 2018.

³⁵ Source, analyst, Kampala

³⁶ The Observer, 11 Apr 2018.

³⁷ The Observer, 11 Apr 2018.

³⁸ The Observer, 11 Apr 2018.

³⁹ Source, analyst, London

⁴⁰ Daily Monitor, 13 Apr 2018.

⁴¹ Daily Monitor, 13 Apr 2018.

⁴² Daily Monitor, 13 Apr 2018.

government rebutted the warning, indicating that Uganda's debt is below the 50% threshold beyond which it becomes unsustainable.⁴³

However, an opposition member of parliament said the government spends much of the money it borrows on seminars and workshops, rather than funding services for its citizens:

*"I have just attended one that was organised using funds from the **African Development Bank (AfDB)** and each of us was paid 500,000 shillings (\$134). So, unless we cut borrowing to finance recurrent budget, the situation in Uganda will continue to worsen."*⁴⁴

A **Kampala**-based local political analyst blamed the high debt on the government's entrenched patronage system:

*"We are suffering as a country because of misplaced priorities. Billions of shillings were borrowed to finance a useless initiative, which they called **Operation Wealth Creation**. The operation is headed by the president's brother. He spent 60 billion shillings from borrowed funds on buying cars for army generals. So unless we get our priority right, the country's debt will continue widening."*⁴⁵

Malac also noted that Uganda is yet to fully utilise its benefits under the US **African Growth and Opportunity Act (AGOA)**.⁴⁶ The preferential trade facility allows 38 eligible African countries to export more than 6,000 products to the US tariff-free.⁴⁷ A local think-tank, the **Economic Policy Research Centre (EPRC)**, indicated that Uganda's failure to fully utilise AGOA stems from context-based factors that undermine the economy, such as under-utilisation of technology, high electricity costs, the high cost of finance, and institutional and infrastructural weaknesses.⁴⁸

Malac's comments are part of broader US concerns about Uganda's politics and economy.⁴⁹ Malac indicated that several US companies and investors have expressed interest in investing in Uganda but are deterred by the high levels of corruption and an unfriendly business environment.⁵⁰ Uganda dropped from 115 to 122 on the **World Bank's Ease of Doing Business** rankings in 2017.⁵¹ It ranks 151 out of 180 on **Transparency International's 2017 Corruption Perceptions Index**.⁵²

Uganda remains one of the US's top allies in Africa, mainly because of its role as a stabilising influence in East Africa, but the US is increasingly concerned about the sustainability of President Museveni's 32-year authoritarian government, corruption, and the weakness of public institutions. Uganda's rising debt levels are unsustainable, despite the government arguing that it remains below the threshold at which it would be toxic.⁵³ The parliamentary committee's report on the national economy released in April demonstrated that although Uganda's debt to gross domestic product (GDP) ratio is at 28.1% as of December 2017, this

⁴³ Daily Monitor, 13 Apr 2018.

⁴⁴ Source, member of parliament, Kampala

⁴⁵ Source, political analyst, Kampala

⁴⁶ The Independent, 13 Apr 2018.

⁴⁷ The Independent, 13 Apr 2018.

⁴⁸ The Independent, 13 Apr 2018.

⁴⁹ Source, analyst, London

⁵⁰ Daily Monitor, 18 Apr 2018.

⁵¹ New Vision, 2 Nov 2017.

⁵² Transparency International website

⁵³ Source, analyst, London

figure is much higher if undisbursed loans are factored in.⁵⁴ The **Bank of Uganda** (central bank) also cautioned in March that the current level of debt makes the economy vulnerable to higher exposure and failure to meet external debt obligations in the event of exchange rate volatility and slow growth in exports.⁵⁵

Planner

14 Jun 2-18. **(Uganda) Bank of Uganda (BoU)** monetary policy committee rate setting meeting;

6 Aug 2018 **(Uganda)** International Conference on Technology Management;

19 Sept 2018. **(Uganda)** Uganda International Oil and Gas Summit;

21 Sept 2018. **(Uganda)** Digital and Financial Expo;

27 Set 2018. **(Uganda)** Uganda Food Expo;

5 Oct 2018. **(Uganda)** Uganda International Trade Fair;

Nov 2018 **(Uganda)** *East African*. Relaunch of national airline **Uganda Airlines**;

2023 **(Uganda)** General elections;

Chronology

8 May 2018. **(Uganda)** *New Vision*. Uganda and **Egypt** sign three memoranda of understanding (MOUs) in energy, agriculture, and investment;

8 May 2018. **(Uganda)** *Daily Monitor*. Members of parliament issue a resolution formally protesting the **United Nations'** planned relocation of its regional and continental base from **Entebbe** to **Nairobi**;

7 May 2018. **(Uganda)** *France24*. Government announces plans to introduce a new tax on social media usage starting in July, sparking fears of increased surveillance of the internet;

6 May 2018. **(Uganda)** *The Independent*. Media reports suggest President **Yoweri Museveni** is reportedly looking to replace the long-serving **Bank of Uganda (BoU)** governor, **Emmanuel Tumusiime Mutebile**;

5 May 2018. **(Uganda)** *Daily Monitor*. The governments of Uganda and **Tanzania** sign an agreement to fast track the deadline for the completion of the **East African** crude oil pipeline, expected to be completed by 2020;

5 May 2018. **(Uganda)** *The Independent*. Uganda is set to receive \$408m from the **United States President's Emergency Fund for AIDS Relief (PEPFAR)**, an increase on the \$402m it received in 2017;

17 Apr 2018. **(Uganda)** *Daily Monitor*. **United States (US)** ambassador **Deborah Malac** cautions Uganda's government on rising debt rates, and under-utilisation of the **Africa Growth and Opportunity Act (AGOA)** facility;

16 Apr 2018. **(Uganda)** *The Independent*. The Uganda government signs a **Project**

⁵⁴ Daily Monitor, 7 Apr 2018.

⁵⁵ Daily Montour, 7 Apr 2018.

Framework Agreement with the Albertine Graben Refinery Consortium, paving way for the construction of the first oil refinery in Uganda;

14 Apr 2018. **(Uganda)** *The Observer*. The government announces plans to accept 500 refugees from **Israel**;

8 Apr 2018. **(Uganda)** *Daily Monitor*. The **Uganda Bankers' Association (UBA)** announces plans to sue the **Uganda Revenue Authority (URA)** over its demands for customer data;

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