

## AFRICA RISK CONSULTING

### Uganda Briefing August 2015

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#### Uganda Summary 16 August 2015

*President Yoweri Museveni (1986- present) confirms that he will stand in the 2016 presidential election. Museveni enters the election as clear favourite. Should he win, he will begin the process of managing his own succession, most likely to a close family member. Uganda and Kenya agree on a northern route for the crude oil export pipeline, which will run from the Albertine Graben oil region (Uganda) to Lokichar in Turkana County (Kenya) to the Port of Lamu (Kenya). Parliament withdraws the Pension Sector Liberalisation Bill. British Airways (BA) says it will suspend flights between Entebbe International Airport and London Heathrow in October because they are not commercially viable.*

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#### Museveni to stand in 2016 presidential election

President **Yoweri Museveni** (1986- present) confirmed on 31 July<sup>1</sup> that he intends to stand in the 2016 presidential election, scheduled for February or March. Museveni's candidacy is not a surprise. In August 2014, Museveni explicitly endorsed the **Kyankwanzi Resolution**, a demand he had created by which **National Resistance Movement (NRM)** members of parliament (MPs) called for him to stand unopposed as the party's presidential candidate.<sup>2</sup> While Museveni has "never been a full convert to democracy",<sup>3</sup> he has the political acumen to win unfairly in flawed elections rather than postpone elections and risk losing donor support and investor confidence.

On the same day as Museveni's candidacy announcement, former prime minister **Amama Mbabazi** announced that he will stand as an independent candidate rather than challenge Museveni for the NRM nomination (see *ARC Briefing July 2015*).<sup>4</sup> Mbabazi accused the ruling NRM leadership of blocking his attempts to challenge Museveni to be the party's candidate.<sup>5</sup> **Kampala** lord mayor **Erias Lukwago** also announced on 31 July that he will form a **Truth and Justice Platform** to unite the numerous opposition candidates ahead of the election.<sup>6</sup> Kampala is an opposition stronghold and Lukwago a long-standing vocal critic of Museveni. The NRM government has stripped the office of lord mayor of many of its powers in order to limit Lukwago's influence (see *ARC Briefing April 2014*).

Museveni enters the election as the clear favourite to win. He benefits from continued support in rural areas, lack of a credible opposition offering an alternative economic or political vision for Uganda, a political party financing system biased in favour of the NRM, and control over security agencies.<sup>7</sup> Thoughts are therefore already turning to the 2016-2021 period amid speculation about whether Museveni will seek to manage a transition before the 2016 elections, or before the 2021 polls, or whether he will seek to amend the constitution so that he can stand beyond 2021.

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1 New Vision, 31 Jul 2015.

2 Daily Monitor, 18 Sep 2015.

3 Source, business consultant, Uganda

4 New Vision, 31 Jul 2015

5 New Vision, 31 Jul 2015.

6 VOA, 31 Jul 2015.

7 Source, former senior European diplomat, Uganda

There are long standing, persistent rumours – corroborated to varying degrees<sup>8</sup> – that Museveni would prefer that a family member succeed him in office.

*“There is simply too little time – with less than one year remaining [before the election] – for him to engineer a succession plan, especially if it involves his son [Brigadier **Muhoozi Kainerugaba Museveni (MKM)**]. It would be too risky, and Museveni does not gamble where he doesn’t need to. If this had been his plan, he would have [implemented] it by now.”<sup>9</sup>*

As commander of the **Special Forces Group (SFG)** – now the biggest and best-equipped unit in the **Uganda People’s Defence Force (UPDF)** – MKM is able to advance the careers of soldiers loyal to him. This means that whoever succeeds Museveni will need MKM’s blessing (if MKM remains in uniform). A former adviser to Museveni commented:

*“... Project Museveni is Plan A. He is not planning to leave office. He’s grooming Muhoozi in case he should fall ill in office and needs someone – i.e., the presidential guard brigade – to hold the ring and protect the family during any transition. Maybe after 2021 we will see MKM assume greater prominence; but I see Muhoozi as very much Plan B – a contingency option – for now.”<sup>10</sup>*

If Museveni were to stage-manage a presidential succession for MKM, it would raise Uganda’s political risk profile. A presidential succession would be unpopular among ambitious NRM members who do not want to see a ‘fait accompli’ imposed on them, and especially among those not from western Uganda. Museveni-era officials in the NRM – the so called ‘historicals’ – could oppose the move publicly. And, despite his military background, MKM does not have universal support within the UPDF. The junior officer cadre and senior non-commissioned ranks in the regular army resent the privileged status and promotions available to members of the SFG.

The other possible family succession would see first lady **Janet Museveni** succeed her husband.<sup>11</sup> Janet Museveni is MP for **Ruhanna** and minister for the eastern **Karamoja Region**, but she is set to resign ahead of the election. Over the years Janet Museveni has increased her public profile and roles.<sup>12</sup>

*“... her publicly pious pentecostalist Christian stance brings her into the orbit of rich pastor types, often funded by counterparties in the **United States (US)**.”<sup>13</sup>*

Janet Museveni is well placed to succeed Museveni, especially if he dies in office.

*“Janet’s ambitious for herself and wants to protect the family. If Museveni dies in office, expect her to be a rallying point for all the security chiefs – and MKM – who all depend on Museveni for their positions. The constitution says that – if Museveni dies in office – the vice-president (**Edward Ssekandi**) would head an interim administration pending elections after six months. Ssekandi is a weak man and very pliable. The Museveni inner circle sees him as no threat but useful for portraying any transition as constitutionally sound while they devise a plan to retain control. So, if Museveni were to die unexpectedly before 2021, I’d expect Janet to maneuver herself into the top job ahead of MKM.”<sup>14</sup>*

## Uganda and Kenya agree on route for crude oil export pipeline

Uganda and **Kenya** agreed on a route for the crude oil export pipeline on 10 August. The finalised route is significant as oil companies begin to consider final investment decisions before their own self-imposed deadline of 2017. The pipeline will transport crude oil from the **Albertine Graben** oil

<sup>8</sup> Source, former senior European diplomat, Uganda

<sup>9</sup> Source, former senior European diplomat, Uganda

<sup>10</sup> Source, former Museveni political adviser, Uganda

<sup>11</sup> Source, political analyst, Kampala

<sup>12</sup> Source, political analyst, Kampala

<sup>13</sup> Source, political analyst, Kampala

<sup>14</sup> Source, former Museveni political adviser, Uganda

region (Uganda) to **Lokichar** in **Turkana County** (Kenya) to the under construction **Port of Lamu** (Kenya),<sup>15</sup> the so-called northern route. The southern route would have run along an existing fuel products pipeline through **Nairobi** (Kenya) to the **Port of Mombasa**. While oil sector companies will welcome the increased certainty that comes with a decision over the route, it is not the decision that they wanted.<sup>16</sup> Oil sector companies had advocated the southern route citing security concerns in northern Kenya, as well as the requirement for a longer pipeline.<sup>17</sup> Ugandan energy minister **Irene Muloni** was a leading advocate for the Mombasa route.<sup>18</sup> However, Museveni is willing to override Muloni on key decisions (see *ARC Briefing July 2014*).<sup>19</sup> The Kenyan government preferred the Lamu route, arguing that it had already completed land repurchases in the region as part of the development of the Port of Lamu.<sup>20</sup> Members of President **Uhuru Kenyatta's** (2013- present) ethnic **Kikuyu** group have acquired tracts of land in the Lamu area to benefit from increased property values resulting from the port and the pipeline.<sup>21</sup>

Kenyatta and Museveni announced the route during Kenyatta's state visit to Kampala from 8-10 August. The oil export pipeline still requires the Kenyan government to offer financing and security guarantees as well as agreement on transit fees. The agreement lacked details about financing, tendering for construction and the timeline for construction.<sup>22</sup> The Kenyan government had said previously that construction could be completed by 2018 or 2019.<sup>23</sup>

The government is increasingly aware of the need to address oil sector investor concerns about infrastructure. Parliament on 26 July approved a \$145m loan request to the **World Bank Group's International Development Association** to finance roads in the Albertine Graben oil region.<sup>24</sup> A lack of infrastructure in the Albertine Graben is a long-standing concern for oil companies. Finance minister **Matia Kasaija** petitioned the parliamentary finance committee to approve the loan request.<sup>25</sup> The parliamentary committee noted that the region lacks road network connections between Albertine Graben and other parts of Uganda as well as with neighbouring countries.<sup>26</sup> Beyond the oil sector, Albertine Graben is important for agricultural exports with tea plantations in **Kyenjojo District**, tobacco and rice in **Hoima District** and sugar in **Masindi District**.<sup>27</sup> The finance ministry is responsible for overseeing the five-year project. The government will implement the road project in line with a strategic environmental assessment framework for the Albertine Graben that the cabinet approved in July.<sup>28</sup> The strategic environmental assessment framework aims to ensure that oil and gas activities take account of the socio-economic impact.<sup>29</sup> International investors are looking for opportunities in waste management in Uganda.

*"It is certainly not the most glamorous element of the oil sector, but it is something that oil companies are having to think about as neither they nor the government want to replicate the environmental damage seen in Nigeria."<sup>30</sup>*

15 East African, 10 Aug 2015.

16 Source, senior oil executive, Nairobi

17 Source, senior oil executive, Nairobi

18 www.africaintelligence.com

19 Source, East Africa Analyst, Kenya

20 www.africaintelligence.com

21 www.africaintelligence.com

22 East African, 10 Aug 2015.

23 East African, 10 Aug 2015.

24 East African, 26 Jul 2015.

25 East African, 26 Jul 2015.

26 East African, 26 Jul 2015.

27 East African, 26 Jul 2015.

28 Energy Monitor Worldwide, 27 Jul 2015.

29 Office of the President, press release, 23 Jul 2015

30 Source, international financier, Nairobi

## Pension Sector Liberalisation Bill stalls

Parliament on 25 July withdrew the **Pension Sector Liberalisation Bill** from its agenda. The withdrawal is significant as pension fund managers are awaiting passage of pension sector legislation before entering the Ugandan market.<sup>31</sup> The government and international donors have worked on liberalising the pension sector since 2011. The withdrawal reflects the government's desire to protect the state-run private sector pension fund, the **National Social Security Fund (NSSF)**. The NSSF requires an employer to deduct 5% of an employee's gross monthly earnings and add an additional 10%, making a total contribution of 15% mandatory pension savings for each employee. Liberalisation would allow other pension fund managers to compete with the NSSF in collecting the mandatory pension funds.

## British Airways suspends Entebbe flights

**United Kingdom (UK)-based British Airways (BA)** will suspend flights between **Entebbe International Airport** and **London Heathrow** in October.<sup>32</sup> BA said the flights are not "*commercially viable*".<sup>33</sup> BA currently flies the route four times a week. BA was the only airline flying directly between Entebbe International and Heathrow.

**Etihad Airways** and **Fly Dubai** started services between Entebbe International and **The Gulf** in 2014. The introduction of the Gulf-based airlines partially offset the impact of the closure of **Air Uganda** in August 2014. The Ugandan **Civil Aviation Authority (CAA)** withdrew Air Uganda's air operator certificate in June 2014, leading to temporary logistical challenges for the regional transport of freight or personnel.<sup>34</sup> The withdrawal of the licences followed a scheduled **International Civil Aviation Organisation (ICAO)** audit of the CAA. The ICAO audit failed the CAA, highlighting shortcomings in its oversight and regulatory capacities. While the ICAO audit did not survey the airlines that operate under the CAA's supervision, it questioned the CAA's authority to award certificates. The CAA responded and withdrew air operator certificates from all Ugandan registered airlines that fly internationally. Air Uganda warned that reimbursing clients and meeting fixed costs during the suspension would make it financially unmanageable to resume services without new investment.

The government has worked on a proposal to resurrect the moribund state-owned carrier **Uganda Airlines** dissolved in 2001. The **Uganda Development Corp** reportedly wants to complete the preparatory work to secure the required licences to resurrect Uganda Airlines before the end of the year.<sup>35</sup>

## Implications

Museveni will most likely win the 2016 election. He is able to draw on the support of a Ugandan electorate that fears that no other leader will ensure stability in the manner that he has, as well as the support of NRM MPs and officials who owe their office to him. There is insufficient time for the opposition to unite behind a consensus candidate, or to persuade sufficient numbers of NRM MPs to defect. The indication is that – so long as he does not suffer a major health problem – Museveni will seek to stay in office until he can hand-pick and install his preferred successor, and this will likely mean beyond 2021.

The decision over the pipeline route is only one of numerous outstanding issues causing tension between the government and oil companies. There is still regulatory uncertainty, notably over local content provisions, institutional capacity concerns, and unresolved land compensation issues. International oil companies will remain wary ahead of final investment decisions.

<sup>31</sup> The East African, 25 Jul 2015.

<sup>32</sup> Africa Review, 24 Jul 2015.

<sup>33</sup> Africa Review, 24 Jul 2015.

<sup>34</sup> East African, 19 Jul 2014.

<sup>35</sup> Daily Monitor, 10 Aug 2015.

In the face of trade union opposition, the government is unlikely to invest political capital in the Pension Sector Liberalisation Bill ahead of the 2016 elections. Political considerations will delay reform of the pension market, at least in the medium term.

BA's suspension of its Heathrow-Entebbe flights is likely to result in competing airlines increasing their ticket fares on indirect flights to London Heathrow. The government may find resurrecting Uganda Airlines a prohibitively expensive process. The current budget has no provision in the air sector for resurrecting Uganda Airlines and focuses instead on the development of Entebbe International Airport.

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