

## AFRICA RISK CONSULTING

### Uganda Monthly Briefing May 2016

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#### Uganda Summary 10 May 2016

**Uganda will route its \$4 billion oil export pipeline through Tanzania rather than Kenya due to better security, lower project development costs, and the advanced development of the Port of Tanga. The ruling National Resistance Movement (NRM) backs incumbent Rebecca Kadaga to remain parliamentary speaker in the new parliament. Kadaga raises the possibility of reintroducing the contentious 2014 Anti-Homosexuality Act. The government prohibits live media coverage of opposition protests ahead of the inauguration of re-elected President Yoweri Museveni (1986- present) on 12 May.**

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#### Uganda chooses Tanzania route for oil export pipeline

The **Ugandan** government has chosen **Tanzania** as the route for its \$4 billion oil export pipeline.<sup>1</sup> The southern route through Tanzania will reduce security risks around the pipeline due to its distance from **Somalia**, making securing requisite financing and insurance easier. The 200,000 barrels per day (bpd) pipeline will run from the **Hoima** oil fields (Uganda) to the **Port of Tanga** (Tanzania).<sup>2</sup> Tanzania energy minister **Sospeter Muhongo** said construction of the 24-inch 1,404 km pipeline will be completed in the second quarter 2020.<sup>3</sup> Observers note the regional political implications of the pipeline route, and the decrease in **Kenyan** influence in Uganda. According to a senior opposition pipeline, regional considerations were behind President **Yoweri Museveni's** (1986- present) backing of the Tanzania route.

*"Museveni intends to use this project to gain control over the region. You remember he wanted to be the first president of [proposed regional political union] **East African Federation (EAF)** but it was blocked by the lukewarm response from Tanzania and later out of frustration he joined hands with Kenya president **Uhuru Kenyatta** (2013- present) and **Rwanda** president **Paul Kagame** (2000- present) to fast track the EAF. Tanzania however stood in their way and that dream collapsed. Now he has realised how important Tanzania is to the **East African Community (EAC)** and that's why he has disappointed Kenyans. So yes, it offers a bigger economic gain for Uganda but Museveni will use it to control the region."*<sup>4</sup>

Improved transport infrastructure between Tanzania and Uganda will accompany the development of the pipeline, further developing economic and commercial linkages.

*"Rerouting the oil through the southern route to Tanga will lessen Uganda's dependence on Kenya. The southern route has been given lip service for decades and Uganda should now take advantage of re-routing the oil pipeline to develop the southern route to a sea port as ... it's landlocked and it has been depending on Kenya for its imports and exports. The undersea **Eastern Africa Submarine Cable System** will also now be extended and this will improve internet access in Uganda and Tanzania."*<sup>5</sup>

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<sup>1</sup> Daily Nation, 26 Apr 2016.

<sup>2</sup> Daily Nation, 26 Apr 2016.

<sup>3</sup> Tanzania Daily News, 25 Apr 2016.

<sup>4</sup> Source, leader of opposition in parliament, Kampala

<sup>5</sup> Source, senior oil and gas NGO official, Uganda

In the final technical report, Ugandan petroleum directorate officials maintained that the Tanga route was the “least cost[ly] option”.<sup>6</sup> **Japan**-based engineering consultancy firm **Toyota Tsusho Corp** had recommended a pipeline to the **Port of Lamu** (Kenya) in a feasibility report submitted to the Kenya and Uganda governments in 2014. However, **France**-based **Total SA** opposed the Lamu route citing security threats from Somalia and the terrain, with slopes of more than 25 degrees.<sup>7</sup> Total’s lobbying of the Ugandan government was key to the energy ministry’s petroleum directorate undertaking a second study (see *ARC Briefing Uganda October 2015*). Total linked the government’s decision to the development of other key infrastructure.

*“... because of the re-routing the pipeline, Total will also build a gas pipeline from Tanzania to Uganda resulting in Tanzania supplying Uganda with cheap gas.”<sup>8</sup>*

**Tullow Uganda Ltd** preferred a pipeline route through northern Kenya where parent company **Tullow Oil Plc** has interests in oil fields.<sup>9</sup> The final technical report favoured the Tanga route for several reasons:<sup>10</sup>

- The Port of Tanga is already operational. There are delays to the development of the **China Communications Construction Co**-constructed Port of Lamu, which is expected to be complete in the second quarter of 2022, and requires considerable investment to handle oil exports.
- The Tanga route is mostly flat, with slopes of no more than 15 degrees. This would decrease project development costs. The report estimates the cost of the Tanga pipeline at \$3.5 billion and the Lamu pipeline at \$4.2 billion.
- Transport infrastructure along the Tanga route is more developed than Lamu.<sup>11</sup>
- The Lamu route passes through four forest reserves and national parks, while Lamu itself is a **United Nations Educational, Scientific and Cultural Organization (UNESCO)** world heritage site.<sup>12</sup>
- Land acquisition would take a year longer in Kenya than Tanzania.<sup>13</sup> The report compared the nine months Tanzania required to secure land for the **Mtwara–Dar es Salaam** pipeline, compared to the more than two years Kenya required to secure land for the **Standard Gauge Railway**.
- **Pemba Island** protects the Port of Tanga from winds, while there are greater navigational hazards for oil tankers at the Port of Lamu.

As part of the pipeline agreement, Tanzania will acquire an 8% shareholding of the proposed Hoima oil refinery.<sup>14</sup> Local politicians in Hoima have warned that the faster development of the Tanzania route compared to the Kenya route may distract the government from developing the proposed oil refinery.

*“My worry though is what will happen to thousands of people who have of recent migrated there in Hoima with the hope that they would get jobs in the oil sector. The fear here is that jobs will only be available in an area where crude oil ends and this means that the crude will end up in Tanzania where the refinery will be built. So what will happen to the locals in Hoima who have sold all their belonging and moved here with the hope of working in the oil sector? For now*

<sup>6</sup> Daily Nation, 26 Apr 2016.

<sup>7</sup> Daily Nation, 26 Apr 2016.

<sup>8</sup> Source, senior oil and gas NGO official, Uganda

<sup>9</sup> East African, 21 Sept 2015.

<sup>10</sup> Daily Nation, 26 Apr 2016.

<sup>11</sup> Daily Nation, 26 Apr 2016.

<sup>12</sup> Daily Nation, 26 Apr 2016.

<sup>13</sup> Daily Nation, 26 Apr 2016.

<sup>14</sup> Daily Nation, 26 Apr 2016.

*there's fear that the oil will be exported as crude and locals are likely to miss working in the refinery.”<sup>15</sup>*

The political situation in Hoima remains sensitive with local politicians warning of violence if the government cannot demonstrate that the region will benefit economically from its oil reserves and related infrastructure.

*“As they build the pipeline, they must address the concerns of the people in the affected areas. Failure to do so will result in violence. We can't just see the oil passing through our gardens and going to other countries. The government must address the plight of the youths by empowering them economically even before this pipeline project kicks off otherwise people will be forced to engage in other means including sabotaging the project.”<sup>16</sup>*

The government faces challenges in managing expectations in a sector that does not often result in a large number of employment opportunities, as it depends on a relatively small number of technical appointments.

*“There's a lot of hopelessness among the youths that needs to be addressed otherwise it's a recipe for violence in this oil region and right now everybody has a belief he will get employment in the oil sector and should there be no jobs, then there will be chaos. The government has not taken trouble to sensitise the communities in the oil region on the alternative means of [economic] survival. As I speak now, even a man who has not gone to school also has his eyes on the jobs in the oil sector and you can imagine what will happen if they don't get it.”<sup>17</sup>*

At the EAC summit in **Kampala** on 23 April, Museveni, Kenyatta and Kagame agreed that Uganda and Kenya will build a separate pipeline. The Kenyan pipeline will run from **Lokichat** fields through **Isiolo**, **Kitui**, and **Garissa** to the Port of Lamu as part of the proposed \$24 billion **Lamu Port-South Sudan-Ethiopia Transport (LAPSSET)** corridor.<sup>18</sup> The government expects completion of the pipeline in the second quarter of 2021, but Kenya's relatively small oil deposits may make it difficult to secure investment in pipeline and export terminal unless further discoveries are made or oil prices recover.<sup>19</sup>

### **NRM selects incumbent Rebecca Kadaga as parliamentary speaker candidate**

Incumbent parliamentary speaker **Rebecca Kadaga** has secured the backing of the ruling **National Resistance Movement (NRM)** to remain in office during the new parliament.<sup>20</sup> Kadaga is politically ambitious and could pose a threat to Museveni's plan to choose his own successor. A **Musoga** from Uganda's **Busoga** region, Kadaga might pose a political threat to Museveni if she could ally with the **Buganda** to offer an ethnically balanced challenge. The Buganda comprise Uganda's biggest ethnic group, from the central region around Kampala. The NRM announced on 5 May that both the central committee and the parliamentary caucus had backed Kadaga and current deputy speaker **Jacob Oulanyah** to be the party's candidates for the posts of speaker and deputy speaker in the election expected on 19 May.<sup>21</sup> Oulanyah was Kadaga's main challenger for the speakership. Kadaga has sought to replace Oulanyah as deputy speaker, reportedly offering **Igara West** member of parliament (MP) **Raphael Magyezi** – who has led Kadaga's campaign to remain in office – the post.<sup>22</sup> The NRM's parliamentary majority means its candidates will win both posts. Kadaga was re-elected as **Kamuli** woman MP in the February general election. Defeated opponent **Deborah Mwesigwa Mugerwa**

<sup>15</sup> Source, local politician, Hoima

<sup>16</sup> Source, youth leader, Hoima

<sup>17</sup> Source, youth leader, Hoima

<sup>18</sup> Daily Nation, 26 Apr 2016.

<sup>19</sup> Energy Monitor Worldwide, 30 Apr 2016.

<sup>20</sup> The Observer, 15 Apr 2016.

<sup>21</sup> The Observer, 15 Apr 2016.

<sup>22</sup> The Observer, 15 Apr 2016.

initially challenged her victory in the **Jinja** high court alleging that Kadaga was involved in voter bribery.<sup>23</sup> Mugerwa withdrew her legal petition in April.<sup>24</sup>

Kadaga does not have universal backing within the NRM's leadership due to a perceived independent streak.<sup>25</sup> Kadaga notably refused to expel four NRM 'rebel' MPs from parliament. The NRM expelled four recalcitrant members from the party in 2014. The dispute started with their continued opposition to the November 2012 **Petroleum Act** despite party orders. An NRM tribunal – including Kadaga – expelled the four from parliament in April 2013, but they refused to respect the ruling despite the constitution requiring that MPs who leave their political parties resign their seats. Kadaga, however, changed her mind, and allowed the MPs to remain in parliament until the courts could decide the matter. The government protested the decision in September 2013 with cabinet ministers temporarily boycotting parliament, resulting in delays to government building. Kadaga's support for the rebel MPs resulted in a protracted legal case, with the supreme court reinstating them in October 2015.<sup>26</sup>

Kadaga and Museveni have also previously had a tense relationship due in part to reports of Kadaga's presidential ambitions.<sup>27</sup> Kadaga has increased her political profile in recent years and Museveni is concerned how quickly she has developed an independent popular power base.<sup>28</sup> Museveni has previously wanted Kadaga to "*shut-up*".<sup>29</sup> Nevertheless, Museveni has managed to politically outmaneuver Kadaga. Kadaga was the "*driving force*"<sup>30</sup> behind the contentious 2014 **Anti-Homosexuality Act**. International donors suspended aid in response to the legislation (see *ARC Briefing Uganda March 2014*), but the law was popular with Uganda's conservative constituencies. In signing the law, Museveni took full credit for the legislation which the constitutional court annulled over a technicality in August 2014. Notably, Kadaga in recent weeks has raised the possibility of reintroducing the legislation.<sup>31</sup> Despite their tense relationship, Museveni decided to back Kadaga due to her level of support in the Busoga region, no doubt hoping that the position of speaker might mollify the politically ambitious Kadaga.<sup>32</sup>

Despite the sometime tense relationship between Museveni and Kadaga, the NRM has retained full control over parliament under her chairing, especially through the use of financial incentives. Parliament on 18 April passed the **Income Tax (Amendment) Bill** exempting MPs' allowances from tax.<sup>33</sup> The legislation will undermine government efforts to increase domestic revenue by 0.5% of gross domestic product (GDP) annually. The bill goes against a February high court ruling that instructed the **Uganda Revenue Authority** to collect tax on allowances, including retrospectively to 2004.<sup>34</sup> If Museveni ratifies the legislation, it will limit both past and future tax obligations to basic salaries. The **Civil Society Budget Advocacy Group** estimates that the amendment will cost the government 41.6 billion Ugandan shillings (USh) (\$12.6m) annually.<sup>35</sup> It will also undermine government efforts to increase individual tax payments rather than corporate taxes.

<sup>23</sup> The Observer, 15 Apr 2016.

<sup>24</sup> The Observer, 26 Apr 2016.

<sup>25</sup> Source, western diplomat, East Africa

<sup>26</sup> www.chimpreports.com

<sup>27</sup> Source, western diplomat, East Africa

<sup>28</sup> Source, political analyst, Kampala

<sup>29</sup> Source, political analyst, Kampala

<sup>30</sup> Source, journalist, Kampala

<sup>31</sup> www.theinsider.ug

<sup>32</sup> The Observer, 4 May 2016.

<sup>33</sup> The Monitor, 18 Apr 2016.

<sup>34</sup> The Monitor, 18 Apr 2016.

<sup>35</sup> The Monitor, 18 Apr 2016.

## Government bans coverage of opposition protests

Information minister **Jim Muhwezi** on 5 April issued an order prohibiting live media coverage of opposition protests.<sup>36</sup> A government crackdown on the media will jeopardise donor relationships and may – combined with broader human rights concerns – contribute to withholding of aid. The government is concerned that the opposition may disrupt the inauguration of Museveni on 12 May. The opposition **Forum for Democratic Change (FDC)** has timed its ‘defiance campaign’ in protest at the conduct and result of the February general election to coincide with the inauguration.<sup>37</sup> A court ruled on 29 April that the ‘defiance campaign’ is illegal as any disruptions to the inauguration are against the electorate’s will.<sup>38</sup> Muhwezi warned that the **Uganda Communications Commission** will remove the broadcast licence of any media outlet that covers the protest.<sup>39</sup> Journalists that discuss the protest on social media will also face penalties.<sup>40</sup>

Kampala is an opposition stronghold as the ruling NRM has failed to improve living standards, prioritising instead its own heartlands in rural Uganda. The government has increased its security presence in the city ahead of the planned opposition protests.<sup>41</sup> Security forces in Kampala on 5 May used tear gas to disrupt protests in the city centre.<sup>42</sup> Military jets flew over Kampala at the same time in an apparent government show of strength.<sup>43</sup> Security forces remained heavily deployed in the city in the days before the inauguration.

*“[There is] too much deployment of the military. Events in the coming days likely to be tough.”<sup>44</sup>*

A number of FDC officials including founder **Kizza Besigye** and Kampala lord mayor **Erias Lukwago** remain under house arrest ahead of the inauguration.<sup>45</sup> The opposition is concerned that the media crackdown will allow security forces to act without scrutiny.<sup>46</sup>

## Implications

Tanga is a sensible option for Uganda providing a cheaper, safer, and already more developed alternative to northern Kenya. If oil prices rebound in 2016, a large-scale ramp up in production before the completion of the pipeline in 2020 is feasible. This, however, is later than the government’s target of 2018.

Museveni carefully manages the various factional strands, organs and processes of the NRM, to both weed out and co-opt opponents, and advance ambitious ultra-loyalists. Allowing Kadaga to retain the speakership is a calculated risk. It will provide Kadaga with a platform to continue to raise her political profile. However, should Kadaga prove a political threat to Museveni’s planned succession, the president is likely to use a combination of political and legal threats to curb her political ambitions.

Donor relations will remain tense as the NRM government resorts to increasingly authoritarian means to remain in office. Heavy-handed security service response to popular protests could trigger similar aid suspensions. As opposition to the NRM increases in Kampala, a heavy security deployment will become permanent.

<sup>36</sup> NTV, 5 May 2016.

<sup>37</sup> The Observer, 30 Apr 2016.

<sup>38</sup> The Observer, 30 Apr 2016.

<sup>39</sup> NTV, 5 May 2016.

<sup>40</sup> NTV, 5 May 2016.

<sup>41</sup> NTV, 5 May 2016.

<sup>42</sup> The Observer, 6 May 2016.

<sup>43</sup> The Observer, 6 May 2016.

<sup>44</sup> Source, journalist, Kampala

<sup>45</sup> The Observer, 6 May 2016.

<sup>46</sup> NTV, 5 May 2016.

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