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Kampala City lord mayor Erias Lukwago resumes office after a two-year absence following his 2013 impeachment. Lukwago's return may result in turf wars with Kampala Capital City Authority (KCCA) executive director Jennifer Musisi. RT-Global Resources, preferred bidder for financing and constructing the greenfield Hoima oil refinery, withdraws from the deal, risking delays to upstream development. The Ugandan People's Defence Force (UPDF) says it will withdraw from the African Union Mission in Somalia (AMISOM) in December 2017 as the government looks to curb defence spending.

Kampala lord mayor Erias Lukwago returns to office

The **Kampala Capital City Authority (KCCA)** council chambers re-opened on 16 June for the first time since 2014.¹ **Kampala** is an opposition stronghold and tensions between the KCCA and the national government over the city's governance are likely to continue. The re-opening of the KCCA council chambers marked a return to office of lord mayor **Erias Lukwago** after a two-year absence. Lukwago represents the **Platform for Truth and Justice**, a political faction that has emerged from the opposition **Democratic Party (DP)**.² The ruling **National Resistance Movement (NRM)**, which previously had a majority in the KCCA, impeached Lukwago on 25 November 2013.³ In May that year, councilors had petitioned Museveni to dismiss Lukwago for abuse of office and incompetence.⁴ Museveni referred the case to the then attorney general **Peter Nyombi** who established a tribunal under high court justice **Catherine Bamugemereire**.⁵ Bamugemereire's report found largely in favour of Lukwago but still concluded that there were sufficient grounds to dismiss him. While the high court overturned the impeachment three days later, it began a two-year period out of office for Lukwago and the effective closure of the KCCA.

*"The re-opening is an attempt to normality in the first instance. Of course the central government has a lot of interest in the politics of KCCA and is responsible for the earlier impasse, which was meant to derail opposition influence in the running of affairs at KCCA. Whereas it seemed to work, the main target, i.e. the mayor, has remained popular among the electorate in the city and this puts the government in a difficult situation."*⁶

However, while Lukwago was out of office, KCCA executive director **Jennifer Musisi** assumed many of his powers and duties, leaving Lukwago weakened on his return to office.

*"Musisi, who is not elected, is politically insulated by president **Yoweri Museveni** (1986-present) and Kampala minister **Beti Kamya**. Musisi, as KCCA executive director, oversees Lukwago's budget, which was the source of his power. Basically Lukwago now plays an administrative role like convening meetings for councilors. Lukwago is politically isolated, remember the councilors tried to impeach in his last term, and it was his first deputy **Sulaiman Kidandala** who betrayed*

1 The Observer, 17 Jun 2016.

2 Monitor, 30 Jul 2015.

3 The Observer, 25 Nov 2013.

4 Source, journalist, Kampala

5 The Observer, 25 Nov 2013.

6 Source, businessman, Kampala

him. Lukwago is under the executive director now and he can only make some noises in the media as the position of the mayor is now largely ceremonial.”⁷

Lukwago’s relationship with both Musisi (of the NRM) and Kamyá (leader of the opposition **Uganda Federal Alliance**) is currently “cordial”.⁸ Lukwago is a popular figure in Kampala. He easily won the mayoral poll during the February general election with almost four times as many votes as runner up **Daniel Kazibwe**.⁹

“The landslide win by the lord mayor is a protest vote by the electorate towards the strategy of the state to gag the people’s representatives in the city.”¹⁰

Museveni appears to be attempting to harness Lukwago’s continued popular backing. According to a KCCA councilor,

“Lukwago this time will be smiling till the end of his term. The reason is the NRM’s poor performance during the February elections has made the party and its top echelons rethink their approach. So Lukwago will enjoy all the benefits because NRM will want to be seen as a party that has harmonised issues with the popular lord mayor.”¹¹

Lukwago in turn has built bridges with the NRM.

*“Lukwago has also changed strategy and rumour has it that he received US\$500m (\$147,497) from his friend in the NRM Kampala Central, member of parliament (MP) **Muhammad Nsereko**, to help Nsereko’s parliamentary career. In turn, Nsereko helped mobilise his mayoral campaign. Upon his return, he is playing smart politics – he remains in DP but works with NRM friends.”¹²*

The NRM has traditionally left the comparatively educated urban population, especially in Kampala, to its opponents. However, the proximity of increasing and hostile populations to centres of political power has meant that it is no longer able to ignore the grievances of urban voters. However, following the attempt to oust Lukwago, it appears that the government is adopting a more conciliatory strategy. It is notable that Museveni in his most recent reshuffle appointed Kamyá, a leader of an opposition party, Kampala minister.¹³ Museveni may hope that Lukwago’s return means that popular grievances about service delivery failures may target his office rather than the national government.

“The government has in a way accepted that the political reality in KCCA is complex and there is need to work with all stakeholders irrespective of political affiliation. The state has assembled its team that it believes is very loyal and can influence affairs even with a pro-people powerful lord mayor. The NRM hopes the lord mayor will succumb to the many formalities and bureaucracies introduced within KCCA and may not effectively cause any dissent against the state given that he has really been engaged in several battles with state agencies all meant to wear him down.”¹⁴

Kamyá has raised the possibility of amending the **KCCA Act**.¹⁵ The Kampala ministry currently has no permanent secretary or commissioner, raising concerns about its capacity. However, Museveni expects that Kamyá may eventually usher in a more amenable successor to Lukwago.

“The emergence of likeminded and sober politicians like Kamyá is a strategy meant to soothe the annoyed voters in KCCA and is a beginning for a search for a new future lord mayor, one who will

⁷ Source, political analyst, Kampala

⁸ Source, opposition politician, Kampala

⁹ New Vision, 25 Feb 2016.

¹⁰ Source, businessman, Kampala

¹¹ Source, KCCA councilor, Kampala

¹² Source, political analyst, Kampala

¹³ New Vision, 17 Jun 2016.

¹⁴ Source, businessman, Kampala

¹⁵ New Vision, 17 Jun 2016.

be liberal and not incline to opposition like the current lord mayor. All in all sanity will prevail depending on whose ego is tamed. At the moment your guess is as good as mine.”¹⁶

At the reopening of the KCCA, Lukwago appointed **Sarah Kanyike Ssebaggala** his deputy mayor.¹⁷ Ssebaggala is a member of the opposition DP.¹⁸ The opposition **Forum for Democratic Change (FDC)**-dominated KCCA easily approved the appointment of Ssebaggala. The KCCA also appointed committee chairs. The FDC secured key committees: **Ziggwa Wamala** (financial and technical services), **Fatuma Nsereko** (internal audit), **Ismail Ddamba** (education and social services), **Abubaker Kawalya** (physical planning) and **Doreen Nyanjura** (revenue collection).¹⁹

RT-Global Resources withdraws from oil refinery deal

Russia-based **RT-Global Resources**, consortium lead for the preferred bidder for financing and constructing the greenfield **Hoima** oil refinery, has walked away from the \$4 billion deal.²⁰ The reason for the withdrawal is uncertain, drawing attention to the opaque original agreement. Russia’s state-owned **Rostec**, parent company of RT Global Resources, allowed the period of bid security to lapse on 30 June.²¹ Ugandan energy ministry officials have alleged that Rostec failed to execute unspecified provisions within the shareholder agreement.²² The government claims that after a year of negotiations there was no agreement on the shareholder agreement, project framework agreement, implementation agreement and the escrow agreement.²³

However, Rostec has alleged that the Ugandan government failed to deliver contractual conditions, including the award of a promised oil production licence.²⁴ The consortium included Russia-based oil producer **PJSC Tatneft**. Rostec also claimed that the government failed to deliver on tax breaks and that regulatory changes in May had increased investor risks around the project.²⁵ It is not possible to independently verify the government and Rostec’s competing claims of responsibility. The original agreement between the government and RT-Global Resources was agreed in February 2015 amid a lack of transparency over the bidding process and documents, and the government never made the terms of the contract public.

Rostec claims that following the end of the bid period, the Ugandan government instructed the local bank holding the company’s performance bond to pay out a security payment worth \$2m.²⁶ Rostec claims that the Ugandan government did this *“without sufficient grounds and without notifying the consortium”*, raising the possibility that the company will seek legal recourse.²⁷ The Ugandan government has claimed that Rostec has forfeited its performance bond.²⁸

RT Global Resources has reportedly struggled to secure financing due to international sanctions. Rostec CEO **Sergei Chemezov** is under **United States** and **European Union (EU)** sanctions over Russia’s military involvement in **Ukraine**.²⁹ Chemezov is a former **KGB** colleague and close friend of Russian president **Vladimir Putin** (2000-2008/2012-present).³⁰ Rostec is increasingly looking to

16 Source, businessman, Kampala

17 The Observer, 17 Jun 2016.

18 The Observer, 17 Jun 2016.

19 The Observer, 17 Jun 2016.

20 Business Daily, 30 Jun 2016.

21 Russia & CIS Business & Financial Daily, 4 Jul 2016.

22 Business Daily, 30 Jun 2016.

23 Business Daily, 30 Jun 2016.

24 Russia & CIS Business & Financial Daily, 4 Jul 2016.

25 Russia & CIS Business & Financial Daily, 4 Jul 2016.

26 Russia & CIS Business & Financial Daily, 4 Jul 2016.

27 Russia & CIS Business & Financial Daily, 4 Jul 2016.

28 East African, 1 Jul 2016.

29 The East African, 1 Jul 2016.

30 The East African, 1 Jul 2016.

Asia for funds to get around the western sanctions, and has also committed to prioritising its civil products over military technology output.³¹

Since the collapse of the deal, the energy ministry has entered into negotiations with the **South Korea**-based **SK Engineering and Construction Group**-led consortium to finance and construct the Hoima oil refinery.³² SK Engineering was the other shortlisted consortium in the original bidding procedure. However, SK Engineering may also face financing challenges as its financing partner **SK-KDB Global Investment Partnership Private Equity Fund** withdrew its backing before it submitted its final bid.³³

Infrastructure financing in **East Africa**'s oil and gas sector has proved difficult due to the low cost commodity environment. However, the so-called '**Brexit**', the **United Kingdom (UK)** referendum to withdraw from the EU, may trigger an increase in enabling oil infrastructure projects.

*"The majority of international oil companies have their holdings in dollars so are doing really rather well on the current cable [the UK pound/ dollar exchange rate]. With increased international uncertainty, what you will see in the immediate term is oil companies announcing infrastructure projects to try to reassure shareholders. Especially as service providers will not benefit from the foreign exchange rate, and are eager for projects."*³⁴

The first stage of the Hoima refinery is due to launch with a capacity of 30,000 barrels per day in 2021 and the second phase, with a capacity of 60,000 barrels per day, in 2026.³⁵

UPDF to withdraw from Somalia next year

The **Ugandan People's Defence Force (UPDF)** has said that it will withdraw from the **African Union Mission in Somalia (AMISOM)** in December 2017.³⁶ The Ugandan government is under pressure to reduce its defence expenditure due to expensive security provisions for Museveni's campaign before the February election. UPDF chief of defence forces **Katumba Wamala** announced the withdrawal on 23 June, but refused to provide a specific explanation.³⁷ Wamala said the withdrawal is conditional on "*things going well in Somalia*"³⁸ but did not clarify what circumstances would allow a withdrawal. The planned withdrawal would coincide with Somalia's **End of Transition Roadmap** political transition, and would come one year before AMISOM is due to begin the two-year transfer of security responsibility in Somalia to domestic forces in 2018. The UPDF currently accounts for 6,000 of AMISOM's 22,000 peacekeepers.³⁹ The UPDF first deployed in Somalia in March 2007 and was the first country to deploy under the AMISOM mandate.

AMISOM faces a funding crunch as the EU in January decreased its funding for allowance payments by 20%.⁴⁰ While the EU has re-allocated this funding into other forms of direct support for AMISOM, it has increased pressure on the **African Union (AU)** to increase its share of soldier salaries. Since January, UPDF troops in AMISOM have complained about wage payment delays of up to four months.⁴¹ The EU – which funds approximately 90% of the AU's security budget through the **EU African Peace Facility**⁴² – is increasingly focusing its security commitments in Africa on the **Economic Community of West African States (ECOWAS)** and the **Multinational Joint Task Force in Nigeria**. The EU budget cut resulted in Uganda's parliamentary defence committee beginning a

31 ITAR-TASS, 16 Jun 2016.

32 Reuters, 1 Jul 2016.

33 Reuters, 1 Jul 2016.

34 Source, oil sector executive, UK

35 ITAR-TASS, 16 Jun 2016.

36 AFP, 23 Jun 2016.

37 AFP, 23 Jun 2016.

38 AFP, 23 Jun 2016.

39 www.amisom-au.org

40 Source, security analyst, East Africa

41 www.somaliamediamonitoring.org

42 www.irinnews.org

review of all Uganda's external military deployments. The defence committee is expected to report before the end of July.⁴³

Implications

Museveni allowing a popular opposition figure to return to a weakened political office is a politically savvy move. It will mean that an opposition figurehead rather than the NRM central government is the target of criticism over service delivery failings. The relationship between Lukwago and Musisi is crucial to effective governance at the KCCA. Tension between the two will delay infrastructure and development projects in Kampala, and weaken oversight, which until now has curbed corruption in the city. Musisi's budgetary powers and political backing suggest she would win any turf war between the two.

The withdrawal of RT Global Resources is a further delay to the development of support infrastructure and will result in slow upstream development. The uncertainty over the refinery's contractual terms means it is difficult to determine its commercial viability at today's prices.

The lack of concrete detail around the UPDF's withdrawal from AMISOM gives the Ugandan government plenty of leeway to reverse or defer its proposed withdrawal. Museveni views regional peacekeeping deployments as a way of shoring up international support for his administration. Additionally, a stable Somalia is too important for Uganda's security for a sudden withdrawal. The most likely scenario is that Uganda is looking to increase pressure on the EU to resume salary contributions. Even if the EU does not recommence salary payments, AMISOM is looking for new forms of budgetary support that will avoid increased financial obligations on contributing countries. AMISOM may become a **United Nations (UN)** peacekeeping mission, which would mean the UN could petition all member states to back it, or turn to **Gulf States** for financial support.

⁴³ New Vision, 28 Apr 2016.

About Africa Risk Consulting:

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