

AFRICA RISK CONSULTING**Country briefing – Uganda****30 June 2013****Summary**

President Yoweri Museveni delivers state of the nation address as opposition accuses government of failing to deliver on promises. Impact of donor cuts in budget support is partially offset by tax hikes, spending adjustments. Top generals split ranks over president's succession plans. Opposition-aligned newspapers reopen after police raids force closure. Oil management structures are taking shape but sector faces several challenges.

Time to deliver

President Yoweri Museveni delivered his State of the Nation address in **Kampala** on 6 June amid criticism that he had made scant progress on his 2012 pledges.

“In the 2012 State of the Nation address Museveni pledged to fix the economy by supporting light industry, and improve the performance of the agricultural sector by fixing the road and energy infrastructure that would spur growth”.¹

The government had also promised to fight corruption, but donors allege that government officials stole almost half the \$30m they contributed to a development programme in north and northeastern Uganda. Donors have therefore slashed their budget support to \$19m instead of the \$289m that the government had hoped to receive from donors in the financial year starting 1 July.²

As more young people who were still infants when Museveni came to power start to become politically active, the government will increasingly need to deliver on its promises rather than relying on merely being less brutal and repressive than previous regimes. According to a regional military figure in his forties: *“What works in Museveni's favour is those of us who still remember what it was like before him – who still remember a time when things were worse.”³*

That generation is fast becoming a minority.

“The regime faces an inexorable political reckoning due to demographics. With more than 70 percent of the population under the age of 25 and an average life expectancy of just under 54

¹ The East African, 1 June 2013

² ibid

³ Source, regional military figure, East Africa

*years, the pool of people who remember how bad things were under **Milton Obote** – to say nothing of under **Idi Amin** – and are thus more disposed to being grateful for the progress which, whatever his faults, Museveni has delivered, is rapidly diminishing, both in absolute terms and as a proportion of the electorate. The government must deliver on a host of rising social, economic, and political expectations.”⁴*

Rifts in the ranks

Political and military actors are taking stock of the new landscape following President Yoweri Museveni's reshuffle of the army and cabinet in late May. Senior general **David Sejusa** (formerly **Tinyefuza**) prompted the shuffle when he alleged in a confidential memo that Museveni was grooming his son, Brigadier **Muhoozi Kainerugaba**, who has enjoyed rapid promotion through the ranks and who now commands Uganda's **Special Forces**, to succeed him. Sejusa said that there were plots to assassinate those opposed to the plan, dubbed the **Muhoozi Project**.⁵

Several prominent generals – notably police chief **Kale Kayihura**, chief of defence staff **Aronda Nyakairima** and Museveni's brother, **Salim Saleh**, criticised the memo. However, **Elly Tumwine**, the most senior military figure in the country after Museveni himself, broke ranks by saying there should be no rush to condemn Sejusa and that he should be allowed to tell his side of the story. Tumwine was joined by **Greg Mugisha-Muntu**, another general and former army commander who now heads the main opposition party, the **Forum for Democratic Change**.

Museveni moved **Uganda People's Defence Forces' (UPDF)** Chief **Aronda Nyakairima** – listed in the memo as allegedly opposing Project Muhoozi – to a civilian post as minister of internal affairs. In his place he appointed **Edward Katumba Wamala**, a former police chief and land forces chief. According to one analyst the reshuffle was linked to the succession issue, but can also be seen as a positive step towards broadening the ethnic base of the army's high command.

*“A number of other factors play a role. Some of the appointments bring greater diversity to ethnic representation at the top ranks and might be viewed as responses to frustration at what some viewed as monopolisation of senior positions in the UPDF by officers hailing from western Uganda. The appointments of Katumba Wamala, who is Baganda, to be chief of the defense force and **Charles Angina**, a northerner, to be his deputy can certainly be read in this light. Other appointments, such as the move of joint chief of staff **Fred Mugisha**, who is well regarded internationally for his service as commander of **AMISOM** when the peacekeepers finally pushed **al Shabaab** out of **Mogadishu** in 2011, to head the new counterterrorism center might help capture more international resources. In short, while it is too simplistic to view everything as necessarily connected with succession issues, the reality is that question is out there and it would be unlike Museveni not to have a long game in mind.”⁶*

⁴ Source, political analyst, US

⁵ Agence France Presse, 20 May 2013

⁶ Source, political analyst, US

Sejusa, meanwhile, has gone into hiding in London but plans to return to Uganda to face accusations of subversion and spreading harmful propaganda.⁷

... and media fallout

Opposition-aligned media outlets reopened on 30 May after a police raid closed down operations 10 days earlier. Police searched the premises of the *Daily Monitor* on 20 May, ostensibly looking for a copy of the Sejusa memo.⁸ The raid also targeted **KFM** and **Dembe FM** radio stations, part of the *Daily Monitor's* umbrella **Nation Media Group** and located in the same building, taking both stations off air. Police also raided the offices of *The Red Pepper*, a controversial tabloid. The closure of the two papers left only one major operating newspaper, the government-owned *New Vision*.

The crackdown on media stirs fears that Uganda is "increasingly a police state that is very tightly controlled through the presidency with select members of his family and in-laws."⁹ Although Ugandans have seen improvements in their lives over President Museveni's tenure of more than 25 years, there has been "a slow shift from a broad-based constitutional government to patronage-based, personal rule, which has relied increasingly on centralisation, patronage and coercion to maintain control".¹⁰

Oil in the pipeline...

Expectations are high around the potential for oil to drive Uganda's transformation into a regional economic player but progress is slow. Uganda announced the discovery of large-scale deposits in 2006. However, the difficulty of getting the oil to market dashed hopes that production would start in 2009. Reserves are estimated at 2.5 billion barrels, a figure that could yet rise. Projections for the maximum daily production rate vary between 125,000 and 200,000 barrels per day (bpd). This means that Uganda is set to join other mid-sized producers such as **Gabon**, the **Republic of Congo** and **Chad**.

*"Current reserves are estimated to have the potential to generate over \$2 billion in annual revenue for more than 20 years. To put this into context, according to the **Organization for Economic Cooperation and Development (OECD)**, Uganda's state revenues for 2012–2013 are estimated to be \$4.5 billion, and receipts of development aid for 2010 were \$1.7 billion. So while the contribution of oil to the economy will be considerable, it will not be immediately transformative."*¹¹

Uganda will require significant investment – estimated at \$10 billion – to develop its oil fields.

Disputes between the government and oil companies over taxation and over the terms of production-sharing agreements (PSAs) have added to engineering delays. Some progress was recorded in 2012 with new players, **Total** and the **China National Overseas Oil Corporation**, signing agreements to

⁷ The Independent, 13 June 2013

⁸ Agence France Presse, 20 May 2013

⁹ Source, business development consultant, UK

¹⁰ International Crisis Group, 'Uganda: No Resolution to Growing Tensions', *Africa Report* 187, 5 April 2012.

¹¹ Royal Institute of International Affairs, February 2013

take one-third stakes in the oil blocks as partners with **Tullow**, the company that has played the central role in the development of Uganda's oil to date. However, production has not yet begun and Uganda will not reach full capacity before 2020.¹²

Many Ugandans saw the relative speed with which **Ghana** discovered commercially viable quantities of oil and started pumping it and imagined a similar scenario for their country, but oil company executives say extracting Uganda's onshore oil is far more challenging.

*"The basin is 160 kilometres long, it's a very long way from the marketplace, and it's an incredibly environmentally and socio-economically sensitive area. So it's not just developing the actual technology for the wells, it's getting the stuff to market that's the real difficulty."*¹³

A further factor delaying development could be reluctance on the part of the oil companies to pay bribes. *"Some people are saying one of the reasons oil production hasn't come on line before is that oil companies have been too clean – that there were some parties within government in Uganda who have been holding out for a pecuniary award for getting the wheels rolling."*¹⁴

Some oil legislation is still before parliament, but the **Petroleum (Exploration, Development and Production) Act**, passed in December 2012, puts much of the structure in place. The act provides for the establishment of an independent **Petroleum Authority**, charged with oversight of the sector in exploration, development and production phases, and a **National Oil Company (NATOIL)**. NATOIL will be tasked with handling "the state's commercial interests" and with managing the business aspect of the state's participation in oil.

*"But the government retains clear overall control. The energy minister is foreseen as having final say on policy relating to production issues, including the issuing of licences, and the minister of finance on decisions related to the spending of resulting revenues. These will first flow into a holding account before being separated into a Petroleum Investment Reserve, managed by the Bank of Uganda, or allocated directly to the national budget, and therefore subject to normal budgetary oversight procedures, including parliamentary approval."*¹⁵

Questions remain over how much of the oil should be exported in crude form and how much should be refined locally and sold in local and regional markets. Local refining would reduce transport costs, notably of bringing refined products from the nearest ports, in Kenya, and create jobs and stimulate local petroleum-related industries.¹⁶ Exporting Ugandan crude, on the other hand, would avoid the expense of building a refinery – costs have been estimated at \$3-4 billion – and, through offering oil production companies access to reliable world market prices, could spur further investment in Uganda's oil.

¹² Royal Institute of International Affairs, February 2013

¹³ 'Tullow: National Oil Company may share in production, but government must make up its mind over basin development', *Oil in Uganda*, 14 May 2012

¹⁴ Source, analyst, UK

¹⁵ The Royal Institute for International Affairs, February 2013

¹⁶ The Royal Institute for International Affairs, February 2013

The **International Monetary Fund (IMF)** sees a pipeline that would take the crude from the oil fields of western Uganda to Kenya's Indian Ocean coast as necessary for companies to be able to recoup their investment.¹⁷ The **World Bank** and the oil companies have aligned themselves with the IMF position. The oil companies fear that with the refinery option, unrest in the wider region could affect profits or potentially jeopardise the refinery's operations. Some commentators have put Uganda's reticence over a pipeline down to fears that Kenya would end up having control over Ugandan oil.

The different parties have now settled on a compromise – to build a refinery with initial capacity of 30,000 bpd by 2016/17, rising to 60,000 by 2018/19, according to **Fred Kabanda**, principal geologist at Uganda's petroleum exploration and production department,¹⁸ and to build a pipeline to export the remainder.

Implications

Progress will remain slow in oil development. The most ambitious independent estimates are for oil to come on-stream in 2016/2017 and for production to reach full capacity not before 2020 at the earliest. Theoretically, slow development of the oil sector should give Uganda time to put in place mechanisms to avoid the resource curse, the paradox whereby countries rich in natural resources tend in the long term to record slower growth than countries with fewer resources. But given the large-scale corruption scandals alleged to involve top government figures in the past few years, observers fear the same officials will be eyeing oil. Moreover, slow development means the government will need to manage public expectations about the benefits of oil. Although oil has the potential to drive the transformation of Uganda's economy, technical and geographical factors that are making it a slow process risk generating public disappointment and discontent.

Museveni and his government appear to be resilient to opposition claims of failing to deliver on decades of promises. Ahead of the 2016 elections, the question is not so much what the ruling **National Revolutionary Movement (NRM)** will do, but rather whether the opposition can mature sufficiently to put up a credible challenge. Museveni has not said whether he will stand again.

Uganda's constitution blocks anyone over 75 from running. The veteran leader claims he does not know his exact date of birth but says he was born in 1947. Activists say he is older than 66.

Two factors support the probable return of donor funding to prop Uganda's finances. Uganda remains a key western ally in the bid to contain Islamist extremists in the **Horn of Africa**. In addition, Museveni's skill at leveraging his country's contribution to **AMISOM** means that most bilateral donor

¹⁷ Source, analyst, UK

¹⁸ Reuters, 19 June 2013

money is expected to come back on line relatively swiftly, albeit possibly in a form that will allow donors to save face. Instead of direct budget support, donors might fund specific projects.¹⁹ In the meantime Uganda has said it will hike taxes and adjust spending to bridge the gap. Ugandans are complaining that the budget support cuts were triggered by government officials stealing public funds and that the same officials are now imposing higher taxes on items such as fuel, kerosene fuel for lamps and vehicle registration. Minibus and motorbike taxi operators will pass the higher registration and fuel costs onto passengers. In addition to the budget, another bill before parliament aims to increase the cost of mobile money transfers by 10%. The combination of these increases is likely to lead to a fresh spate of opposition rallies in Kampala and other major towns. That in turn will hurt small businesses, which tend to close for the day when major rallies are taking place. In the longer term regular large-scale rallies could slow economic growth.

It would be premature to judge the impact of the re-opening of the opposition media. *The Monitor* signed an undertaking to publish fewer stories negative on Uganda and it remains to be seen how the paper will interpret its commitment. *The Monitor* is part of the Nation Media Group, in which the largest shareholder (although not the majority shareholder) is the **Aga Khan Fund for Economic Development**. Rich Ismaelis are prominent in business circles that gravitate around Museveni. It is conceivable that the Ismaeli businessmen, fearful of losing lucrative contracts, could pressure *The Monitor* into taking a less critical stance.

¹⁹ Source, political analyst