

AFRICA RISK CONSULTING

Uganda Monthly Briefing April 2019

Uganda Summary 17 April 2019

The Bank of Uganda (BoU) (central bank) holds the Central Bank Rate at 10% as BoU governor Emmanuel Mutebile warns that Uganda's economy faces risk from regional tensions with Rwanda and the United States' trade war with China. The finance ministry drafts new regulations for managing oil revenue, as analysts caution against spending pre-production oil wealth. The Uganda National Roads Authority (UNRA) secures a China-based contractor for constructing and upgrading roads as part of developing the country's oil infrastructure. The kidnapping of an American tourist in Queen Elizabeth National Park threatens Uganda's tourism sector.

Bank of Uganda holds central bank rate at 10%

Bank of Uganda (BoU) governor **Emmanuel Mutebile** said on 1 April that **Uganda's** economic growth and export revenue are at risk of decline in the short and medium term because of global trade conflicts and the ongoing tensions between Uganda and **Rwanda**.¹ Mutebile made the statement as he delivered the monthly monetary policy for April.² He said the trade dispute between **China** and the **United States (US)** was having a negative impact on Uganda's economy, mainly through slowing down the two largest global economies' imports of goods from developing countries such as Uganda.³

"Downward risks to the projected economic growth momentum have increased since the previous round of forecasts. The risks largely revolve around unresolved trade tensions, with are affecting global and domestic trade and investment activities... Elevated political and policy uncertainty in the global economy in an environment of limited policy space could weigh further on global growth, and subsequently Uganda's economic growth."⁴

Mutebile also indicated that Uganda's regional trade had declined by 8% since the government of Rwanda closed its border with Uganda, especially the **Gatuna** border.⁵ The Ugandan shilling has been on a downward trend since March, has contributes to the projected economic decline.⁶ It traded at 3,753/3,763 shillings (US\$) to the US dollar on 10 April, compared to US\$3740/3750 the previous day, 9 April.⁷

The BoU maintained its **Central Bank Rate (CBR)** unchanged at 10% for April and May:

"Taking account of the available information, the BoU judges that keeping the stance of monetary policy unchanged at this MPC meeting would be consistent with sustainable growth in the economy and achieving the inflation target over time. Therefore, the BoU

¹ Daily Monitor, 2 Apr 2019.

² Daily Monitor, 2 Apr 2019.

³ Daily Monitor, 2 Apr 2019.

⁴ Excerpts from BoU governor Emmanuel Mutebile quoted in Daily Monitor, 2 Apr 2019.

⁵ Daily Monitor, 2 Apr 2019.

⁶ Reuters, 10 Apr 2019.

⁷ Reuters, 10 Apr 2019.

has decided to maintain the CBR at 10%. The band on the CBR will remain at +/-3 percentage points, and the margin on the rediscount rate at 4 percentage points on the CBR. Consequently, the rediscount rate and the bank rate have been set at 14 per cent and 15 percent, respectively.”⁸

Despite the softening of the economy, Mutebile indicated that the BoU expects the growth rate to remain at the 6-6.5% mark.⁹ The central bank expects several factors, such as increased private sector and government consumption and investment, and an accommodative monetary policy to support this growth.¹⁰ Uganda’s economy largely depends on foreign investments and trade, and this makes it susceptible to regional and global dynamics.¹¹ However, both the US-China trade war and Uganda-Rwanda diplomatic tensions are likely to end in the medium to long term through ongoing negotiations, and thus do not pose long-term risk to Uganda’s economy.¹²

Finance ministry develops new policies for managing oil revenue ...

The finance ministry revealed on 16 April that it has concluded the drafting of three regulations that will guide the government’s spending from the **Petroleum Fund**, which the Bank of Uganda holds.¹³ The government is preparing for oil exports starting between 2021 and 2022, amidst concerns over the level of insulation against politically motivated use of oil revenue.¹⁴ The **Public Finance Management Act of 2015 (PFMA)** established the Petroleum Fund, and requires that all oil-related revenues that accrue to the government be deposited with the fund.¹⁵ The legislation also provides that the finance minister oversee the fund and manage all its deposits and expenditures.¹⁶

*“To facilitate investment under the Petroleum Revenue Investment Reserve in line with PFMA 2015, the ministry has finalized the draft **Petroleum Revenue Investment Policy**, the **Operational Management Agreement** and **Terms of Reference of the Investment Advisory Committee**.”¹⁷*

There is already concern over the way in which Uganda’s oil revenue is spent, with reports that some of the funds have been channeled towards financing the national budget.¹⁸ The finance ministry indicated that the fund was worth US\$288.7 billion (\$77.2m) in December, an almost 50% drop from the US\$470.4 billion (\$125.9m) reported in June 2018.¹⁹ The ministry said that it had transferred the funds to the **Consolidated Fund**, which financed the 2018/2019 national budget.²⁰ The PFMA permits the use of funds from the Petroleum Fund to support the national budget, mainly infrastructure development, but on condition that the area in which the funds are to be used should be specified, which did not happen in this case.²¹

⁸ Excerpts from the BoU, Monetary Policy Statement, 1 April 2019.

⁹ Excerpts from the BoU, Monetary Policy Statement, 1 April 2019.

¹⁰ Excerpts from the BoU, Monetary Policy Statement, 1 April 2019.

¹¹ Source, analyst, London

¹² Source, analyst, London

¹³ The Observer, 16 Apr 2019.

¹⁴ The Observer, 16 Apr 2019.

¹⁵ The Observer, 16 Apr 2019.

¹⁶ The Observer, 16 Apr 2019.

¹⁷ Excerpts from the finance ministry report, quoted in The Observer, 16 Apr 2019.

¹⁸ The Observer, 16 Apr 2019.

¹⁹ The Observer, 16 Apr 2019.

²⁰ The Observer, 16 Apr 2019.

²¹ The Observer, 16 Apr 2019.

The government has been spending on various infrastructure development projects, including roads and power plants, in the 2018-2019 budget.²² However, this has resulted in a fiscal deficit of 6.6%, requiring that the government secure additional funding, which largely explains the withdrawal of funds from the Petroleum Fund.²³ However, analysts caution that spending the funds on projects that do not yield profit, especially before oil production begins, is imprudent:

“It generally reflects a realisation that the start of oil production is still distant and that it makes little sense to have a negative carry on the money in the Petroleum Fund in the meantime. The drawdown could be seen as a precursor of exploring other financial options, such as non-concessional foreign borrowing.”²⁴

The energy and mineral development ministry announced on 10 April that it will open a new round of licensing for new oil exploration prospects in the **Albertine Graben** in May.²⁵ Energy and mineral development minister **Irene Muloni** said the government will open bids for seven new exploration blocks in the oil-rich area in western Uganda, near the border with the **Democratic Republic of the Congo (DRC)**, on the shores of **Lake Albert**.²⁶ Currently, three companies (**United Kingdom-based Tullow Oil, France-based Total E&P, and China-based China National Offshore Oil Company**) hold licences and have begun developing infrastructure to begin producing Uganda’s first oil.²⁷ However, Muloni said the four companies account for 10% of Uganda’s oil capacity, and the new oil licensing rounds will allow the exploration of the remaining 90%.²⁸

The licensing round provides an opportunity to gauge industry interest in investing in new oil exploration in general, and Uganda’s oil and gas industry in particular.²⁹ The competitive bidding process will also serve as a mechanism for determining the value of the industry, which currently faces competition from the renewable energy sector.³⁰ Nevertheless, the oil and gas sector may provide a considerable boost for Uganda’s economy and support the growth of non-oil related industries in the relatively diversified economy.³¹

... as government awards Chinese companies contracts for “oil roads”

Uganda’s National Roads Authority (UNRA) awarded a contract on 26 March for the construction of new “oil roads” that will facilitate the transport of oil and other related goods and equipment, to China-based **China Railway Seventh Group (CRSG)**.³² The roads are part of the ongoing infrastructure development programme that the government and private oil companies are conducting in preparation for the commencement of oil production and export in 2021-2022.³³ UNRA executive director **Allen Kagina** signed the agreement with CRSG representative **Bian Peng** in **Kampala**.³⁴

²² Red Pepper, 3 Apr 2019.

²³ Red Pepper, 3 Apr 2019.

²⁴ Economist, Mark Bohlund quoted in Red Pepper, 3 Apr 2019.

²⁵ Daily Monitor, 11 Apr 2019.

²⁶ Daily Monitor, 11 Apr 2019.

²⁷ Daily Monitor, 11 Apr 2019.

²⁸ Daily Monitor, 11 Apr 2019.

²⁹ Source, analyst, London

³⁰ Source, analyst, London

³¹ Source, analyst, London

³² Softpower, 26 Mar 2019.

³³ Softpower, 26 Mar 2019.

³⁴ Softpower, 26 Mar 2019.

The contract is for the design, and construction of 12 roads that the government will either upgrade or construct as part of the country's oil infrastructure, at a cost of US\$504 billion (\$134.9m).³⁵ These include the **Masindi-Biiso, Kabaale-Kizirafumbi, and Hohwa-Nyairongo-Kyarusheba** roads.³⁶ Kagina revealed that the CRSG will self-fund the commencement of the project for a year as government secures the rest of the funding:

"During this period, it is expected that the contractor will use his money to fund the implementation of works and at the end of one year, after the funds are secured, government will pay for all the works executed under the arrangement and works to be done thereafter."³⁷

The roads are a critical part of the overall processes of developing Uganda's nascent oil industry.³⁸ Oil companies have indicated that they failed to import the larger proportion of machinery required to construct oil wells because they are too heavy for the currently poor roads.³⁹ The government of Uganda and private oil companies have been working to develop physical and regulatory infrastructure for the oil sector, since the discovery of 6.5 billion barrels of commercially viable oil in 2006.⁴⁰ Since the oil sector is a new development for Uganda, the government has had to rely on external expertise to develop much of the infrastructure such as roads, oil wells, a refinery, and an airport in **Hoima** district.⁴¹ The infrastructure development projects will have a positive impact on Uganda's economy through creating jobs and increasing demand from multiple economic sectors.⁴²

Kidnapping of US tourist knocks Uganda's tourism sector

The kidnapping of an American tourist in the **Queen Elizabeth National Park** on 2 April has renewed concerns about security in Uganda and is likely to have a negative impact on the tourism sector, one of Uganda's foremost foreign currency earners.⁴³ Armed assailants abducted the tourist, **Kimberly Endicott**, and her tour guide, **Jean-Paul Mirenge**, during a night game drive in the national park, arranged through local tour company **Wild Frontiers**.⁴⁴ The park is located near Uganda's border with the **Democratic Republic of the Congo (DRC)**, where the hostages spent most of their days in captivity.⁴⁵ The kidnappers called Wild Frontiers using Endicott's phone, demanding \$500,000 in ransom.⁴⁶

The kidnappers released the two hostages on 7 April after Wild Frontiers reportedly paid \$30,000 in ransom.⁴⁷ However, the US and Ugandan governments had both indicated that they would not pay a ransom, saying this would encourage future kidnappings.⁴⁸ The Ugandan government had launched a combined search effort that included the **Uganda Police Force (UPF), Uganda People's Defence Force (UPDF) and the Uganda Wildlife Authority**. US secretary of state **Mike Pompeo** stated,

³⁵ Softpower, 26 Mar 2019.

³⁶ Softpower, 26 Mar 2019.

³⁷ UNRA director Allen Kagina quoted in Softpower, 26 Mar 2019.

³⁸ The East African, 2 Apr 2019.

³⁹ The East African, 2 Apr 2019.

⁴⁰ Source, analyst, London

⁴¹ Source, analyst, London

⁴² Source, analyst, London

⁴³ The New York Times, 3 Apr 2019.

⁴⁴ The New York Times, 3 Apr 2019.

⁴⁵ NPR, 3 Apr 2019.

⁴⁶ The New York Times, 3 Apr 2019.

⁴⁷ The New York Times, 3 Apr 2019.

⁴⁸ NPR, 3 Apr 2019.

*“Any payment to a terrorist or a terrorist regime gives money so that they can seize more of our people. Even a small payment... to a group in ... **Africa** can facilitate the killing or seizure of tens or even hundreds of others, including Americans or foreign nationals in that region.”⁴⁹*

The kidnapping set off a minor diplomatic spat between the US and Ugandan governments. US President **Donald Trump** (2017-present) issued a social media post ordering the government of Uganda to find the tourist and bring the kidnappers to justice.⁵⁰ However, Uganda’s government spokesman, **Ofwono Opondo**, dismissed Trump’s statement, saying that,

“Uganda is a very safe place for its citizens and tourists. We don’t need any lectures from him [Trump] on how to protect our citizens... We don’t have to [get] into arguments with Mr. Donald Trump or anybody.”⁵¹

President **Yoweri Museveni** (1986-present) also issued a statement saying that Uganda was safe, and that the kidnapping was an isolated incident of criminality.⁵² He also pledged to improve safety and security in the country’s national parks.⁵³ Opondo said that the Uganda Police Force had arrested eight suspects in the case, with the assistance of several security operatives from the US government.⁵⁴ Despite this, the US added a travel advisory on kidnapping risks in Uganda on 11 April.⁵⁵

The kidnapping has attracted widespread global publicity and may undermine Uganda’s attractiveness as a tourist destination. Some Uganda-based tourism companies have reported several cancellations of reservations since news of the kidnapping broke.⁵⁶ Tourism is Uganda’s leading foreign currency earner, contributing to 10% of its gross domestic product (GDP), and 23% of exports from the country.⁵⁷ The **Civil Aviation Authority of Uganda** reported tourist arrivals at 1.81 million in 2018.⁵⁸ Although tourist kidnappings are not common in Uganda, the industry is likely to experience a slump in the short to medium term.⁵⁹

⁴⁹ NPR, 3 Apr 2019.

⁵⁰ CBS, 10 Apr 2019.

⁵¹ Excerpts from Uganda government spokesman, Ofwono Opondo’s media statement issued on 10 April.

⁵² Softpower, 9 Apr 2019.

⁵³ Softpower, 9 Apr 2019.

⁵⁴ CBS, 10 Apr 2019.

⁵⁵ USA Today, 11 Apr 2019.

⁵⁶ CBS, 10 Apr 2019.

⁵⁷ Softpower, 9 Apr 2019.

⁵⁸ Softpower, 9 Apr 2019.

⁵⁹ Source, analyst, London

Planner

30 Apr 2019 **Kampala (Uganda)** ICT For Development Conference;

18 Jun 2019 **Kampala (Uganda)** Bank of Uganda Monetary Policy Committee (MPC) meeting;

26 Jun 2019 **Kampala (Uganda)** Uganda Trade Expo;

15 Aug 2019 **Kampala (Uganda)** Bank of Uganda MPC meeting;

19 Sept 2019 **Kampala (Uganda)** Uganda Oil and Gas Summit;

2 Oct 2019 **Kampala (Uganda)** Uganda International Trade Fair;

8 Oct 2019 **Kampala (Uganda)** Bank of Uganda MPC meeting;

13 Dec 2019 **Kampala (Uganda)** Bank of Uganda MPC meeting;

2020 **Final Investment Decision** on oil and gas sector;

2023 **(Uganda)** Uganda general election;

Chronology

16 Apr 2019 **Kampala (Uganda)** *The Observer*. The finance ministry reveals that it has drafted three new regulatory instruments for administering oil revenue;

11 Apr 2019 **Washington DC (United States)** *USA Today*. The **United States' Department of State** issues a travel warning about kidnapping risks after an **American** tourist is kidnapped in **Uganda**;

11 Apr 2019 **Kampala (Uganda)** *Daily Monitor*. Energy and mineral development minister **Irene Muloni** says that the government is preparing to launch a second round of competitive bids for new oil exploration licences in May;

10 Apr 2019 **Kampala (Uganda)** *Deutsche Welle*. Independent legislator and musician **Robert Kyagulanyi**, also known as **Bobi Wine**, confirms his intention to run for president in the 2021 elections;

10 Apr 2019 **Kampala (Uganda)** *Reuters*. **Ugandan** shilling drops in value against the **United States** dollar, amidst strong demand for dollars by importers and the interbank market;

9 Apr 2019 **Kampala (Uganda)** *Softpower*. President **Yoweri Museveni** issues statement that **Uganda** is safe for tourists, a day after the kidnapping of an **American** tourist at the **Queen Elizabeth National Park**;

9 Apr 2019 **Kampala (Uganda)** *CNN*. **Uganda's Police Service** arrests eight suspects in the kidnapping of an **American** tourist in the **Queen Elizabeth National Park**;

7 Apr 2019 **Kampala (Uganda)** *New York Times*. Kidnappers free a tourist and her tour guide after **Uganda**-based **Wild Frontiers** tour company pays \$30,000 ransom to secure their release;

3 Apr 2019 **Kampala (Uganda)** *New York Times*. Kidnappers abduct an **American** tourist and her tour guide from **Queen Elizabeth National Park**, demanding \$500,000 in ransom;

2 Apr 2019. **Kampala (Uganda)** *Daily Monitor*. **Bank of Uganda (BoU)** (central bank) governor **Emmanuel Mutebile** cautions that the ongoing regional dispute with **Rwanda** and

the **United States** trade war with **China** will have a negative impact on Uganda's economy in the short to medium term;

1 Apr 2019. **Kampala (Uganda)** *Daily Monitor*. The **Bank of Uganda (BoU)** (central bank) holds the **Central Bank Rate** at 10%;

28 Mar 2019 **Nairobi (Kenya)** *Business Daily Africa*. President **Uhuru Kenyatta** offers land to **Uganda** to build a dry port in **Naivasha**;

26 Mar 2019. **Kampala (Uganda)** *Softpower*. **Uganda National Roads Agency (UNRA)** signs a deal with **China**-based **China Railway Seventh Group** for the construction and upgrade of roads as part of oil-related infrastructure development;

26 Mar 2019 **Nairobi (Kenya)** *Daily Nation*. **Ugandan** President **Yoweri Museveni** begins a two-day official visit to **Kenya**;

18 Mar 2019 **Kampala (Uganda)** *Reuters*. Members of parliament from the ruling **National Resistance Movement** back President **Yoweri Museveni** for another presidential term in 2021;

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)