

**AFRICA RISK CONSULTING****Country briefing – Uganda****24 October 2014****1 Summary**

*President Yoweri Museveni (1986 – present) appoints Ruhakana Rugunda as prime minister after dismissing his predecessor Amama Mbabazi. The reshuffle is linked to political maneuvering before the 2016 election. The government announces it will hold a competitive licensing round for oil exploration by December. Health authorities confirm an outbreak of Marburg hemorrhagic fever, a pathogen similar in transmission and symptoms to Ebola.*

**1.1 President Museveni swears in new prime minister**

President **Yoweri Museveni** (1986 – present) swore in **Ruhakana Rugunda** as prime minister on 2 October, further politically marginalising his predecessor **Amama Mbabazi**. The dismissal is directly linked to maneuvering before the 2016 election. It follows Museveni’s endorsement in August of the **Kyankwanzi Resolution** whereby **National Resistance Movement (NRM)** MPs called on him to stand unopposed as the party’s presidential candidate (see *ARC Uganda March 2014 Briefing*).<sup>1</sup> On 18 October, Museveni told the NRM central executive committee that he had dismissed Mbabazi to stop “confusion” caused by Mbabazi’s wife **Jacqueline Mbabazi**, the chair of the **NRM Women’s League**, lobbying for her husband to become president.<sup>2</sup>

Museveni dismissed Mbabazi on 18 September, with officials citing internal party rules that Mbabazi could not be both prime minister and NRM secretary general.<sup>3</sup> Mbabazi was NRM secretary general at the time of his appointment as prime minister in 2011 and the NRM had previously tolerated him holding both positions. The real cause for the dismissal is that Museveni increasingly viewed Mbabazi as an electoral threat in the 2016 presidential election.<sup>4</sup>

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1 Daily Monitor, 18 Sep 2014.

2 Observer, 16 Oct 2014.

3 Daily Monitor, 18 Sep 2014.

4 Source, journalist, Kampala

Mbabazi had been a weakened figure since Museveni stripped him of his powers as NRM secretary general in March, a position which he retains (see *ARC Uganda March 2014 Briefing*). While Mbabazi harbours presidential ambitions, there is uncertainty about how large a threat he would actually pose to Museveni. Mbabazi is a bureaucratic technocrat who lacks the charisma to mobilise large number of NRM members to decamp from Museveni before the NRM delegates conference scheduled for 2015.<sup>5</sup> However, Mbabazi is popular with the NRM youth whilst also being a ‘historical’<sup>6</sup> and his dismissal may therefore encourage fissures within the NRM.<sup>7</sup> The defection may therefore not damage Museveni in the long run but may force him to offer increasing concessions to maintain the unity of the NRM.

It is more likely that Mbabazi would look to Uganda’s fractious opposition parties – including the **Forum for Democratic Change (FDC)** – rather than the NRM to realise his presidential hopes. In June, FDC president **Mugisha Muntu** said the party was working on a possible alliance with Mbabazi for the 2016 election.<sup>8</sup> The opposition lacks the patronage networks and capital of the NRM and – even if discontent is increasing within the NRM, especially amongst its youth<sup>9</sup> – is highly unlikely to win the election. Mbabazi may not wish to join a losing cause and Museveni may realise that Mbabazi has limited options. If Museveni had viewed Mbabazi as a real threat, he would have allowed him to remain prime minister, “*Museveni keeps his enemies closer than his friends*”.<sup>10</sup> Museveni has previously shielded Mbabazi against accusations of corruption<sup>11</sup> in the oil and gas sector. If Mbabazi does emerge as meaningful challenger to Museveni, the president may resurrect these allegations without intervening to protect his onetime ally.

The longer term impact of the dismissal might be to clear the path for Museveni’s son, brigadier **Muhoozi Kainerugaba Museveni (MKM)**, commander of the **Special Forces Group (SFG)**, to succeed his father. There are increasingly few figures who could pose a significant challenge to MKM. On 17 October, a group called the **Why Not Youth Pressure Group** held its first meeting at **Makerere University in Kampala** to campaign for MKM to run for president in 2021.<sup>12</sup> Museveni will be too old to stand in 2021 with the constitution barring candidates older than 75 (although Mbabazi would be young enough). MKM addressed the gathering that focused on youth and economic opportunities, with unemployment an increasingly significant issue for young Ugandans. Although Museveni senior

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5 Source, journalist, Kampala

6 The generation of NRM officials involved in the 1980s guerrilla war and their families

7 Source, journalist, Kampala

8 The Observer, 8 Jun 2014.

9 Source, politician, Kampala

10 Source, journalist, Kampala

11 Source, political analyst, Kampala

12 Observer, 14 Oct 2014.

was widely expected to address the gathering, he did not. If Museveni did stage manage a presidential succession to MKM, it would raise tensions within the armed forces who already resent the privileged position of the SFG (see *ARC Uganda July 2014 Briefing*). It would also be unpopular within the younger ranks of the NRM who do not want to see a ‘fait accompli’ negotiated between the ‘historicals’.

## 1.2 *New prime minister is a low key appointment*

Rugunda assumed the office of prime minister on 6 October citing job creation and infrastructure development as his priorities.<sup>13</sup> He is a low profile appointment:

*“He is a competent long time minister but, more importantly as far as Museveni is concerned, not in the slightest ambitious.”<sup>14</sup>*

Rugunda is chairman of the NRM’s electoral commission and has held a number of senior government positions. A physician by training, he was health minister (2013 – 2014), permanent representative to the **United Nations** (2009 – 2011), internal affairs minister (2003 – 2009), and foreign minister (1994 – 1996). Rugunda led the government’s negotiating team with **Lord’s Resistance Army** leader **Joseph Kony** during the **Juba** peace talks in 2006. He was a student activist and spent a period in the **United States** after being exiled by **Idi Amin** (1971 – 1979). He returned in 1986 becoming health minister. Rugunda was born in **Kabale District**.<sup>15</sup>

## 1.3 *The government will hold oil licensing round in December*

The energy ministry’s petroleum exploration and production department has confirmed that it plans to hold a competitive oil exploration licensing round by December.<sup>16</sup> This is the first licensing round since the government imposed a moratorium on oil licensing in 2007 – before exploration confirmed commercial reserves – to allow it to establish an effective legislative and regulatory framework. In August, parliament appointed boards for the **National Petroleum Authority (NPA)** and **National Oil Company (NOC)** (see *ARC Uganda August 2014 Briefing*). Uganda currently has a drilling success rate of 88%, and it is expected that there will be interest amongst larger oil companies than those currently operating in Uganda<sup>17</sup> and potentially amongst the international oil majors.<sup>18</sup>

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<sup>13</sup> Daily Monitor, 7 Oct 2014.

<sup>14</sup> Source, businessman, Kampala

<sup>15</sup> Daily Monitor, 23 Sep 2014.

<sup>16</sup> Energy Monitor Worldwide, 10 Oct 2014.

<sup>17</sup> Tullow Oil, Total SA, and the China National Offshore Oil Corp.

<sup>18</sup> Source, lawyer advising the Ugandan government on the oil sector

The government is beginning to think about how oil revenue will benefit it. The government estimates that once commercial oil production begins in 2017, it will produce annual oil revenues of approximately \$5 billion for thirty years.<sup>19</sup> The **World Bank** is working with the Ugandan government on a Country Economic Memorandum to guide policy makers in devising appropriate regulatory and fiscal frameworks, determining equitable and transparent tools for the management of revenue, and ensuring that oil wealth leads to broad and sustainable economic growth.

Oil companies are still concerned about regulatory uncertainty in Uganda, notably the practical implementation of Section 125 of the **Petroleum (Exploration, Development and Production) Act 2013** that sets out local content regulations. The legislation compels a licensee and its contractors to give preference to goods or services that are produced or available in Uganda and delivered by Ugandan companies. If the required goods or services are not available in Uganda, they must be provided by a company that has entered into a joint venture with a Ugandan company. The domestic company should have a shareholding of at least 48% of the joint venture. The legislation does not provide specific provisions for penalising defaulters or rewarding compliers. The government is currently developing regulations for the practical implementation of the local content legislation. There is concern amongst oil companies that the government will seek to implement it rigidly as it seeks to maximise its returns from the sector.<sup>20</sup> This is part of a wider trend across **East Africa** “*whereby tax regimes are only going to get more aggressive*”.<sup>21</sup> There are questions about whether domestic companies have the experience or financial and technical capacity to form 48% of a joint venture.

The government demonstrated its willingness to amend legislation governing the oil and gas sector in October when Museveni announced plans to amend the **Mineral Act 2011** before December.<sup>22</sup> The revisions would make the government the legitimate owner of land containing hydrocarbons. The current version of the legislation states that exploration companies must obtain surface rights from landowners before the government issues a mineral licence. Under the new system, the government would automatically acquire the land, and oil companies would need to deal directly with the state to secure access.

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<sup>19</sup> FT, 22 Oct 2014.

<sup>20</sup> Source, oil sector analyst

<sup>21</sup> Source, oil sector analyst

<sup>22</sup> Daily Monitor, 7 Oct 2014.

The government is expected to announce in December who has won the contract to construct the \$2.5 billion 60,000 barrels per day **Hoima Refinery**. The government has shortlisted two consortiums led by **Russia** based **RT-Global Resources** and **South Korea** based **SK Group**.<sup>23</sup> The governments of **Kenya**, Uganda and **Rwanda** are also expected to announce in November the consultant to oversee a feasibility study and construction of a 1,300km oil pipeline from Hoima to the Kenyan coast.<sup>24</sup> The project will additionally include the construction of a fibre optic cable from Hoima through the **Lockichar Basin** to **Lamu** in Kenya as well as a pipeline from the Lamu tank terminal to offshore mooring buoys. The study is expected to take five months.<sup>25</sup>

The low price of oil is unlikely to jeopardise these infrastructure projects due to the scale of Uganda's deposits. In October, oil traded well below \$90 per barrel on the international market.<sup>26</sup> The **Organization of the Petroleum Exporting Countries (OPEC)** is scheduled to meet on 27 November to discuss whether to cut its oil output to bolster prices. It is unlikely to do so amid reluctance from the **Gulf States** who are aware that falling prices are increasing pressure on shale exploration and production activities.<sup>27</sup> In the long term, the price of oil will probably recover on the back of continued demand in **China** and **India**.

#### *1.4 Uganda faces Marburg outbreak*

Uganda is facing an outbreak of Marburg hemorrhagic fever at a time when international attention and resources are focused on similar pathogen Ebola. On 29 September, a Ugandan national who worked at both a local health centre and at **Mengo Hospital** in **Mpigi District** presented symptoms of hemorrhagic fever in Kampala.<sup>28</sup> On 4 October, the **Centers for Disease Control and Prevention (CDC)** announced that blood tests revealed Marburg fever.<sup>29</sup> The health ministry and the CDC responded quickly which meant they were able to track the transmission line and have quarantined at least 80 people who came into contact with the victim either in Kampala or at his burial place in **Kasese District**. Uganda has informed the **World Health Organization (WHO)** about the outbreak.<sup>30</sup> While Uganda has mobilised domestic resources quickly, there is concern about whether international agencies are able to offer support.

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<sup>23</sup> Source, lawyer advising the Ugandan government on the oil sector

<sup>24</sup> Source, lawyer advising the Ugandan government on the oil sector

<sup>25</sup> The East African, 13 Oct 2014.

<sup>26</sup> Platts, 17 Oct 2014.

<sup>27</sup> Source, oil sector analyst

<sup>28</sup> New Vision, 5 Oct 2014.

<sup>29</sup> CDC press release, 4 Oct 2014.

<sup>30</sup> WHO, 10 Oct 2014.

*“The current demand on already overstretched resources because of Ebola means humanitarian agencies may have limited capacity to respond if domestic authorities fail to contain it.”<sup>31</sup>*

Marburg is an acute infectious viral disease belonging to the same hemorrhagic fever family as Ebola. The modes of transmission between people are similar to Ebola: direct contact with bodily fluids.<sup>32</sup> The symptoms are also similar: a sudden onset of high fever, severe headaches, vomiting, diarrhea, and internal and external bleeding. Early symptoms are similar to those of malaria.<sup>33</sup> During the incubation period of two to 21 days, infected people are not contagious. Like Ebola, there is no proven vaccine and the only treatment is supportive care. The last Marburg outbreak in Uganda in 2012 lasted two months and caused 20 cases with a 45% fatality rate.<sup>34</sup> Fatality rates can reach 88%.<sup>35</sup>

## 2 Implications

Museveni will offer concessions to the NRM members to ensure party loyalty, but high government spending will increase inflationary pressures as the election approaches. Museveni may begin to usher in younger members of the NRM to more senior positions to keep the party’s Young Turks inside. Museveni’s eventual transfer of power, likely to be in 2021 if he does not amend the constitution, will be tumultuous regardless of the identity of his successor. The risk of political and security instability will increase markedly if Museveni overtly begins to usher in the unpopular MKM.

Following the licensing round, the government will award exploration licences during the second half of 2015. The previous drilling success and scale of Uganda’s deposits will encourage international oil companies to overcome uncertainty over the regulatory framework and infrastructure. Developments in the sector will slow as campaigning for the 2016 election takes precedence.

Ugandan authorities have previously limited outbreaks of Marburg and the likelihood is that they will do so again. In the unlikely event that it does spread, there is increasing risk that government responses will disrupt business operations including border closures and cargo screenings.

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<sup>31</sup> Source, INGO official, East Africa

<sup>32</sup> [www.cdc.gov](http://www.cdc.gov)

<sup>33</sup> [www.cdc.gov](http://www.cdc.gov)

<sup>34</sup> [www.msf.org](http://www.msf.org)

<sup>35</sup> [www.msf.org](http://www.msf.org)