

## AFRICA RISK CONSULTING

### Uganda Monthly Briefing September 2017

#### Uganda Summary 1 September 2017

*Campaigning begins as the opposition Forum for Democratic Change (FDC) prepares to elect a party president in November. The FDC remains divided between a faction that wants to prioritise street protests and a faction that wants to focus on preparations for the 2021 election. The government selects the Albertine Graben Refinery Consortium (AGRC) to develop the Hoima oil refinery, but rival China-based Dongsong Guangzhou Energy Group Co Ltd-led consortium threatens to challenge the contract award. France-based Total E&P sets out a timeline and options for financing of \$3.55 billion East African Crude Oil Pipeline (EACOP).*

#### FDC prepares to elect new party president

Campaigning to become opposition **Forum for Democratic Change (FDC)** party president officially began on 17 August.<sup>1</sup> The FDC increasingly appears unable to pose a meaningful political challenge to President **Yoweri Museveni** (1986-present) and his successor is more likely to come from within the ruling **National Resistance Movement (NRM)**. The FDC will elect its president on 21 November during a delegates' conference.<sup>2</sup> There are two significant factions in the FDC: one loyal to incumbent party president **Mugisha Muntu** and the other to party founder and 2016 presidential candidate **Kizza Besigye**.<sup>3</sup> While Muntu is standing again, Besigye, whom he replaced as FDC party president in November 2012, is not. The candidates are Muntu, former **Kumi District** member of parliament (MP) **Patrick Oboi Amuriat**, **Kawempe South** MP **Mubarak Munyagwa**, and younger generation of challengers **Moses Byamugisha**, a former official in the office of the leader of opposition in parliament, and **Dan Malcom Matsiko**, a **South Africa**-based FDC activist.<sup>4</sup> Muntu is the favourite:

*"My thinking is that Muntu is going to have an easy ride. First, he has the power of the incumbent since he's the reigning president. Secondly, his competitors – Munyagwa, Oboi and Byamugisha – are not as well known nationally as him. Muntu has also been in the trenches for the FDC longer than any of the three other candidates. That said, I anticipate a strong showing by Oboi who has support among delegates from eastern **Uganda**. However, I think the support alone is not enough to guarantee him victory. While he's an amiable fellow, he lacks the kind of charisma that Muntu has. Munyagwa is more of a comedian and I don't think any serious delegate can back him."*<sup>5</sup>

While Besigye is not standing, Oboi is presenting himself as his successor who shares his strategy for opposing Museveni.<sup>6</sup> Besigye and Oboi represent the FDC's so-called "defiance"<sup>7</sup> wing, which wants to challenge the NRM through public protests and labour action.<sup>8</sup> This wing argues that the NRM won the 2016 general election through electoral fraud and intimidation, and will win the 2021 general election in the same way due to the uneven playing field. Muntu represents the FDC's so-called

<sup>1</sup> The Observer, 17 Aug 2017.

<sup>2</sup> The Observer, 17 Aug 2017.

<sup>3</sup> The Observer, 17 Aug 2017.

<sup>4</sup> The Observer, 17 Aug 2017.

<sup>5</sup> Source, television station political editor, Kampala

<sup>6</sup> The Observer, 17 Aug 2017.

<sup>7</sup> Source, journalist, Kampala

<sup>8</sup> Source, journalist, Kampala

“compliance” wing.<sup>9</sup> This more conservative wing wants to put in place the necessary party structures and political platform to pose a meaningful electoral challenge to the NRM in the 2021 election.<sup>10</sup> The ‘defiance’ wing reportedly has more support amongst FDC members, though the majority of the FDC’s 35 MPs back the “compliance” wing.<sup>11</sup> The FDC national executive committee has overturned a previous restriction that required FDC senior officials to remain neutral during leadership campaigns. The “defiance” wing has the backing of FDC secretary general **Nathan Nandala-Mafabi**, deputy secretary general **Harold Kaija**, vice chair **Buganda Joyce Nabbose Sebugwawo**, and former leader of the opposition **Wafula Oguttu**.<sup>12</sup> The “compliance”<sup>13</sup> wing has the backing of FDC party spokesman and opposition chief whip **Ibrahim Ssemujju Nganda**, who is the chairman of Muntu’s campaign committee.<sup>14</sup> There is concern that infighting between the factions will damage the standing of the FDC.

*“In my view, these elections will end up weakening the young party because it looks like the party members are not ready for democracy. The factions have been in place since Muntu defeated Nandala-Mafabi in the last leadership election in 2012. Ordinarily, we would have expected both factions to come together and rally behind the winner. This has failed up to now and the same grudges have made the party break into two camps. In a democracy, you do not keep your sides after elections but this is the opposite in FDC as rival camps emerge after every party elections.”<sup>15</sup>*

A source within the FDC shared this interpretation, blaming the lack of a meaningful political platform for encouraging internal infighting not providing a challenge to the NRM,

*“The divisions that have struck our party in the last five years are hindering mobilisation on the ground as our leaders have failed to address their differences. They just continue to broaden the gap of division and hatred. It is supposed to be the work of the party president to create harmony among the members to prevent the party from disintegrating. He is supposed to ensure harmony and unity in the party regardless of who supported him or not. What many of our leaders including the president don’t know is that the kind of debate they are engaged in is not helpful at all for the development of the party. The reason why this kind of debate is taking centre stage is simply one factor – they have nothing new to offer.”<sup>16</sup>*

There is a possibility that the factionalism will fracture the NRM. According to an opposition member of parliament (MP),

*“FDC members are having an internal election that does not attract more than 1,500 voters but to my dismay [their infighting is] equipping their enemies with an arsenal which will lead to their disintegration as a political party. I can predict that a new party will emerge after the elections because the disgruntled supporters will not accept to follow either of the rival camps of Oboi or Muntu. That party will be weak and insignificant by the time we go to 2021 elections.”<sup>17</sup>*

## Government selects Hoima oil refinery consortium

The government has selected the **Albertine Graben Refinery Consortium (AGRC)** to develop the **Hoima** oil refinery.<sup>18</sup> The risk of political and legal challenges to the selection of the AGRC increases uncertainty about the commercial viability of the \$4.3 billion 60,000 barrels per day (approximately 30% of total projected oil production) oil refinery. The government had originally shortlisted the

<sup>9</sup> Source, journalist, Kampala

<sup>10</sup> Source, journalist, Kampala

<sup>11</sup> Source, journalist, Kampala

<sup>12</sup> Source, journalist, Kampala

<sup>13</sup> Source, journalist, Kampala

<sup>14</sup> The Observer, 17 Aug 2017.

<sup>15</sup> Source, political analyst, Kampala

<sup>16</sup> Source, FDC delegate, Central Uganda

<sup>17</sup> Source, opposition MP, Kampala

<sup>18</sup> New Vision, 7 Jul 2017.

AGRC and a **China-based Dongsong Guangzhou Energy Group Co Ltd**-led consortium to develop the refinery. The government has insisted that it did not, at the shortlisting stage, view either the AGRC or the Dongsong-led consortium as the preferred bidder.<sup>19</sup> However, Dongsong claims it secured best-bidder status, and local media have reported that Dongsong came out on top during the government's due diligence process.<sup>20</sup> The government relaunched the tender after **Russia-state owned Rostec subsidiary RT Global Resources**, the initial winner of the contract, withdrew in June 2016 citing commercial disagreements with the government, and second place bidder **SK Engineering and Construction Group** decided it was no longer interested.

Local media reported on 3 August that China state-owned **China National Petroleum Corp** subsidiary **China Petroleum Engineering and Construction Corp (CPECC)** withdrew from the Dongsong-led consortium, resulting in the subsequent collapse of the deal.<sup>21</sup> CPECC reportedly informed the government in June that it has withdrawn from the Dongsong-led consortium.<sup>22</sup> CPECC's role in the consortium as engineering, procurement and construction (EPC) contractor was reportedly the primary reason that the government offered it the contract in the first place.<sup>23</sup> CPECC was also central to the consortium's ability to access low-cost debt financing. The other consortium partners, who were to provide a mixture of equity and debt financing, are the **China Africa Fund for Industrial Cooperation (CAFIC)**, **Guangzhou Silk Road**, **East China Design and Engineering Institute**, **Export-Import Bank of China (China Exim)**, and **Industrial and Commercial Bank of China (ICBC)**.<sup>24</sup> Dongsong had informed the government it has \$100m of pre-financial investment decision funds in place.<sup>25</sup>

Local media have speculated that a disagreement between the consortium partners is the reason for CPECC's withdrawal. CPECC was reportedly frustrated that Dongsong, a smaller company with a poorer record of project implementation, was the consortium-lead and wanted final say over the project's financing.<sup>26</sup> Dongsong reportedly retains backing from Museveni despite struggling to develop the **Usukuru phosphates project in Tororo District**.<sup>27</sup> The Hoima refinery contract reportedly does not provide for the replacement of the EPC contractor, meaning CPECC's withdrawal resulted in its collapse.<sup>28</sup>

Dongsong has, however, challenged this narrative and has formally complained to the government about the award to the AGRC. In a letter to government officials, including energy minister **Irene Muloni**, the then energy minister permanent secretary **Stephen Isabalija** (see below), and prime minister **Ruhakana Rugunda**, dated 8 August, the Dongsong chairman **Lv Weidong** argued that, after the government awarded them best bidder status, the *"introduction of parallel negotiations with another bidder was not necessary and in bad faith."*<sup>29</sup> In the letter, Lv rejects media reports that CPECC withdrew from the consortium.<sup>30</sup> Dongsong said that it remains committed to the development of the Hoima refinery, but that it reserves the right to challenge the award of the contract to any other bidder.<sup>31</sup> Local media have quoted anonymous Dongsong sources as claiming that it lost the contract because the company's close relationship to Museveni precludes it from paying bribes to finance ministry officials, unlike its commercial rivals.<sup>32</sup> In May, finance ministry officials were charged with

<sup>19</sup> East African, 21 Aug 2017.

<sup>20</sup> The Observer, 9 Aug 2017.

<sup>21</sup> The Independent, 4 Aug 2017.

<sup>22</sup> The Independent, 4 Aug 2017.

<sup>23</sup> The Independent, 4 Aug 2017.

<sup>24</sup> The Independent, 4 Aug 2017.

<sup>25</sup> The Independent, 4 Aug 2017.

<sup>26</sup> The Independent, 4 Aug 2017.

<sup>27</sup> The Independent, 4 Aug 2017.

<sup>28</sup> The Independent, 4 Aug 2017.

<sup>29</sup> The Observer, 10 Aug 2017.

<sup>30</sup> The Observer, 10 Aug 2017.

<sup>31</sup> The Observer, 10 Aug 2017.

<sup>32</sup> The Observer, 10 Aug 2017.

accepting a \$300,000 bribe to expedite documentation for the finance and construction of electricity infrastructure for the **Guangzhou Dongsong Energy Group (U) Ltd** power project in Tororo District.<sup>33</sup> Dongsong has so far provided no evidence of corruption in the bidding process.

Regardless, the government appears to be progressing with the AGRC. The energy and mineral development ministry announced on 7 August that it and the AGRC have agreed "*core project terms... to establish, develop and operate a commercially viable refinery*".<sup>34</sup> The government expects to sign a project framework agreement with the AGRC within two months.<sup>35</sup> The AGRC is led by **India**-based **Yatra Ventures LLC**, and includes US-based **General Electric Co** and **Italy**-based **ENI SpA** subsidiary **Saipem SpA** as the EPC partner.<sup>36</sup>

The government's terms with the AGRC are less favourable than with the Dongsong Consortium. The Dongsong consortium could provide debt financing interest rates of 4-7% compared to the AGRC's 8-12%.<sup>37</sup> However, ICBC had required a sovereign guarantee from the finance ministry.<sup>38</sup> The government was reportedly reluctant to agree to this as it would increase its exposure to the commercial performance of the refinery. It is unclear if the AGRC required a similar financial guarantee.

Energy ministry permanent secretary Isabalija appears to be the first political victim of the contentious tendering. Museveni dismissed Isabalija on 23 August.<sup>39</sup> Neither Museveni nor Muloni provided a reason for the dismissal. Isabalija had only held the post since November 2015 when he replaced powerful predecessor **Fred Kabagambe Kaliisa**.<sup>40</sup> Kabagambe Kaliisa is currently a senior presidential adviser on oil and gas.<sup>41</sup> It was Isabalija who announced that the AGRC had won the contract to develop the Hoima oil refinery.<sup>42</sup> Isabalija reportedly did not inform Muloni of his decision to offer the refinery contract to AGRC.<sup>43</sup> There is also speculation that Museveni dismissed Isabalija to placate Dongsong, who had previously threatened legal action over the award of the contract to AGRC.<sup>44</sup> Museveni appointed **Robert Kasande**, acting director of the petroleum directorate, as Isabalija's successor on an interim basis.<sup>45</sup> Kasande may also become caught up in fallout from the Hoima tendering process, as he was formerly project manager for the oil refinery.<sup>46</sup> A geologist by profession, Kasande is a technocratic appointment.<sup>47</sup>

The confused tendering process, allegations of corruption, dismissal of a senior government official, and the AGRC's less favourable commercial terms raise investor and commercial risks around the Hoima oil refinery. Investors will already be anxious due to the history of the project, with the collapse of the RT Global deal. This will jeopardise the securing of the necessary capital investment for the project, and increase the risk of delays to the government's timeline of having an operational refinery by 2020.

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<sup>33</sup> The Monitor, 9 Apr 2017.

<sup>34</sup> Reuters, 7 July 2017.

<sup>35</sup> Reuters, 7 July 2017.

<sup>36</sup> The Independent, 4 Aug 2017.

<sup>37</sup> The Independent, 4 Aug 2017.

<sup>38</sup> The Independent, 4 Aug 2017.

<sup>39</sup> www.oilinuganda.org

<sup>40</sup> www.oilinuganda.org

<sup>41</sup> www.oilinuganda.org

<sup>42</sup> www.oilinuganda.org

<sup>43</sup> The Observer, 26 Aug 2017.

<sup>44</sup> The Observer, 26 Aug 2017.

<sup>45</sup> www.oilinuganda.org

<sup>46</sup> www.oilinuganda.org

<sup>47</sup> www.oilinuganda.org

## Total sets out export pipeline financing timeline

After Museveni and **Tanzanian** counterpart President **John Pombe Magufuli** (2015-present) officially commissioned the \$3.55 billion **East African Crude Oil Pipeline (EACOP)** in **Tanga** on 6 August, a senior manager for **France**-based **Total E&P** discussed in the local media the company's options and timeline for its financing.<sup>48</sup> Private sector partners in the pipeline will find it easier to secure financing than their politically exposed state-owned counterparts, **Ugandan National Oil Co (UNOC)** and the **Tanzania Petroleum Development Corp (TPDC)**. Total is the lead joint venture partner in the EACOP. Total plans to raise 70% of the capital financing from international lenders and 30% in equity.<sup>49</sup> Total has appointed **United Kingdom (UK)**-based **Clifford Chance LLP** and **Sumitomo Mitsui Banking Corporation Europe Ltd**, the subsidiary of **Japan**-based **Sumitomo Mitsui Banking Corp**, to advise on the legal and commercial elements of the financing respectively.<sup>50</sup> South Africa-based **Standard Bank Group Ltd** subsidiary **Stanbic Bank Uganda** is, alongside Sumitomo Banking Corp, the joint financial adviser for the pipeline, and plans to raise \$3 billion by the second half of 2018.<sup>51</sup> Total is reportedly "in early stages"<sup>52</sup> of project finance discussions with potential financiers.<sup>53</sup> Local media quoted Total head of corporate communications for **Africa**, **Ahlem Frig'a-Noy** as saying on 16 August that Total will look to **Europe**-based financial institutions to provide the requisite capital expenditure.<sup>54</sup> Reportedly, Total would prefer private sector lenders rather than international financial institutions or export credit agencies due to what the company sees as their relative flexibility and the lack of conditions tied to the lending.<sup>55</sup> Discussions will accelerate after **United States (US)**-based **Gulf Interstate Engineering Co** completes the front-end engineering design (FEED) study, which it is expected to conclude in September.<sup>56</sup> Total expects to reach agreement with a pool of lenders before the company takes a final investment decision (FID) in December.<sup>57</sup> This would allow EPC to begin in January 2018.<sup>58</sup> Once the pipeline partners – Total, UNOC, TPDC, **Ireland**-based **Tullow Oil Plc** and China state-owned **China National Offshore Oil Corp (CNOOC)** – incorporate the **Pipe Co** special purpose vehicle to own and operate the pipeline, it will assume responsibility for negotiations with international lenders.

A more certain timeline and financing options will boost confidence in the downstream sector amid continued uncertainty around the Hoima oil refinery (see above). Nevertheless, regulatory and financial obstacles remain. This includes the establishment of the joint venture, and successful negotiations over shareholding between the national oil companies and international oil companies that hold stakes. The infrastructure deficit along most of the pipeline's route will hinder construction and increase costs.

## Planner

Dec 2017 (**Uganda**) *Daily Monitor*. **Total E&P** expects to make final investment decision for **East African Crude Oil pipeline (EACOP)**;

20 Dec 2017 **Kampala (Uganda)** *Daily Monitor*. Deadline for finance minister **Matia Kasaija** and public service minister **Muruli Mukasa** to present plan to restructure government ministries, departments and agencies, and state-owned enterprises;

13 Dec 2017 **Kampala (Uganda)** *BoU.org.uk*. **Bank of Uganda (BoU)** (central bank) monetary policy

<sup>48</sup> Daily Monitor, 15 Aug 2017.

<sup>49</sup> Daily Monitor, 15 Aug 2017.

<sup>50</sup> Daily Monitor, 15 Aug 2017.

<sup>51</sup> Bloomberg, 15 Aug 2017.

<sup>52</sup> Daily Monitor, 15 Aug 2017.

<sup>53</sup> Daily Monitor, 15 Aug 2017.

<sup>54</sup> Daily Monitor, 15 Aug 2017.

<sup>55</sup> Daily Monitor, 15 Aug 2017.

<sup>56</sup> Daily Monitor, 15 Aug 2017.

<sup>57</sup> Daily Monitor, 15 Aug 2017.

<sup>58</sup> Daily Monitor, 15 Aug 2017.

committee meeting;

21 Nov 2017 **Kampala (Uganda) Independent**. Opposition **Forum for Democratic Change** election for new party president;

21 Nov 2017 **(Uganda) Uganda Radio Network**. Local council 1 elections;

17 Nov 2017 **Kampala (Uganda) Independent**. FDC delegates conference due to begin;

9 Oct 2017 **(Uganda) MediaCentre.gov.ug**. Independence Day;

6 Oct 2017 **Kampala (Uganda) BoU.org.uk**. BoU monetary policy committee meeting;

Sept 2017 **(Uganda) Daily Monitor**. **Gulf Interstate Engineering Co** expects to complete front-end engineering design (FEED) study for EACOP;

27 Sept – 28 Sept 2017 **Kampala (Uganda) Press release**. **Uganda International Oil and Gas Summit**;

21 Sept 2017 **Western (Uganda) Uganda Radio Network**. Ruling **National Resistance Movement (NRM)** to elect chair and member of parliament (MP) for newly created **Bunyangabu** district;

13 Sept – 14 Sept 2017 **Kampala (Uganda) 10Times.com**. **Future Energy Uganda** conference.

## Chronology

30 Aug 2017 **(Uganda) Daily Monitor**. Deadline passes for telecommunication companies to comply with SIM card registration;

28 Aug 2017 **Nakapiripirit (Uganda) Observer**. The inspector general of government, **Irene Mulyagonja**, orders treasury not to pay \$5.6m to **Welt Engineering Ltd** in long-running dispute with **China Road and Bridge Corp**;

25 Aug 2017 **(Uganda) East African**. **Kenya** lifts restrictions on imports of poultry products after bird flu outbreak;

25 Aug 2017 **(Uganda) Daily Monitor**. The prime minister, **Ruhakana Rugunda**, confirms government will not extend deadline for telecommunication companies to comply with SIM card registration;

23 Aug 2017 **Kampala (Uganda) Observer**. President **Yoweri Museveni** (1986-present) dismisses energy ministry permanent secretary **Stephen Isabalija**, appointing **Robert Kasande** as his interim successor;

23 Aug 2017 **(Uganda) Press Release**. The **African Development Bank (AfDB)** debars **China**-based construction company **Chongqing International Construction Corp (CICO)** over fraud during bidding for AfDB-financed **Road Sector Support Project**;

22 Aug 2017 **Kampala (Uganda) Observer**. Museveni appoints Justice **Alfonse Chigamoy Owiny-Dollo** as new deputy chief justice;

19 Aug 2017 **(Uganda) Daily Monitor**. Health ministry declares Uganda free of bird flu;

18 Aug 2017 **(Uganda) Daily Monitor**. Energy and minerals minister **Irene Muloni** confirms signature of memorandum of understanding for \$150m power transmission line with **Democratic Republic of the Congo**;

17 Aug 2017 **(Uganda) Observer**. Campaigning for FDC party president officially begins;

17 Aug 2017 **Kampala (Uganda) Daily Monitor**. After ruling **National Resistance Movement (NRM)** calls for its abandonment, Museveni sets up special committee to look into **Land Acquisitions Act**;

17 Aug 2017 **(Uganda) DPA**. The **United Nations High Commissioner For Refugees** says 1 million

refugees have entered Uganda from **South Sudan** and it is struggling to finance a response;

15 Aug 2017 (**Uganda**) *Daily Monitor*. **Total E&P** discussions options and timeline for the financing of the \$3.55 billion **East African Crude Oil Pipeline (EACOP)**, saying it will look to **Europe**-based financial institutions for capital investment;

10 Aug 2017 **Kampala (Uganda)** *Observer*. The **Bank of Uganda (BoU)** (central bank) holds its central bank rate unchanged at 10%;

8 Aug 2017 **Hoima (Uganda)** *The Observer*. In letter to government, **Dongsong Guangzhou Energy Group**-led consortium challenges award of Hoima oil refinery contract to the **Albertine Graben Refinery Consortium (AGRC)**;

6 Aug 2017 **Tanga (Tanzania)** *The Independent*. Museveni and **Tanzanian** counterpart President **John Magufuli** (2015-present) officially commission the EACOP;

3 Aug 2017 **Hoima (Uganda)** *Independent*. **China Petroleum Engineering and Construction Corp (CPECC)** reportedly withdraws from the consortium to build the Hoima oil refinery, resulting in the subsequent collapse of the deal;

3 Aug 2017 (**Uganda**) *Press release*. **Stanbic Bank Uganda Purchasing Managers' Index** shows output and new orders increased in July;

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