IHS COUNTRY RISK

Uganda – IHS Country Risk Insight

29 May 2018

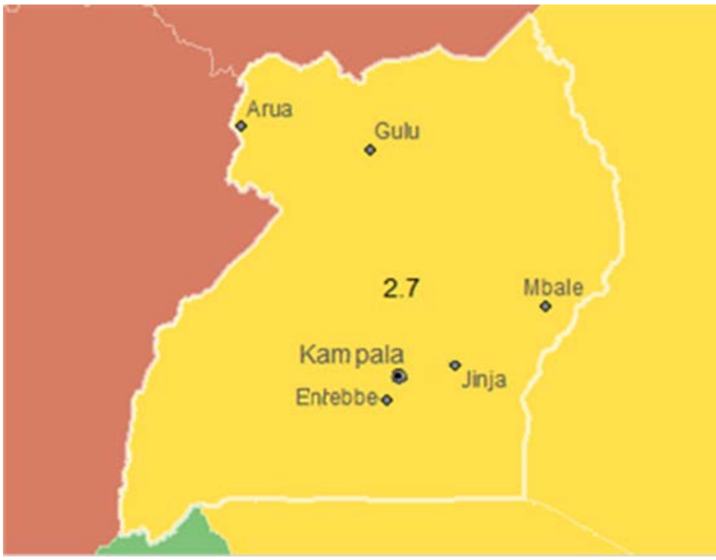
IHSmarkit.com

Summary

- **President Museveni will likely seek to delay elections to 2023 and stand for another term, while preparing a relative as long-term successor**
- **The Ugandan government is likely to focus state investment in the power generation, transport infrastructure, and oil sectors**
- **President Museveni and parliament are making efforts to review contracts and agreements that are perceived to "give too much away" to foreign investors**

Risk scores

Overall	2.7	HIGH
Political	2.2	Elevated
Economic	2.2	Elevated
Legal	2.8	High
Tax	3.4	Very High
Operational	3.5	Very High
Security	2.2	Elevated
Individuals	1.8	Elevated
Cargo and transport	1.6	Elevated



Low	Moderate	Elevated	High	Very high	Severe	Extreme
0.1-0.7	0.8-1.5	1.6-2.3	2.4-3.1	3.2-4.3	4.4-6.4	6.5-10.0

Structure and calculations

Analysts determine scores based on qualitative guidance. Each score represents the average expected level of risk over the coming year, and each outlook represents the projected direction of risk trends after that 12-month period. Overall risk scores are calculated as equally weighted averages of the six aggregate categories – Political, Economic, Legal, Taxation, Operational and Security. Risk is scored on a 0.1-10 scale. The scale is logarithmic, with intervals of 0.1 magnitude. This range is split into seven bands, ranging from Low to Extreme risk.

IHS Markit

IHS™ COUNTRY RISK

Business environment - strengths and weaknesses

Strengths	Weaknesses
Stable security environment relative to the region.	Lack of strong political institutions independent of the Presidency.
Availability of significant natural resources, including ample fertile land, regular rainfall, and mineral deposits.	Widespread corruption, likely to worsen with increased oil revenues.
Increasingly regionally-integrated economy.	Poor physical infrastructure, including lack of sea access
Moderate economic growth, with 5.4% GDP growth forecasted for 2018 and 5.9% for 2019.	High energy, transport and production costs.

Country risk - overall statement

The absence of strong government institutions and the overbearing influence of the executive have allowed President Yoweri Museveni and his ruling National Resistance Movement (NRM) to remain in power for 30 years, with state and NRM power structures having become largely synonymous. Museveni's February 2016 re-election signifies that he is unlikely to be successfully challenged from within the ruling party or by the opposition, and his successful removal of the presidential age limit from the constitution clears the way for him to stand for re-election (likely successfully) in 2021. Opposition leaders are significantly more likely to engage in dialogue and negotiations with Museveni rather than attempt disruptive protest campaigns, which would likely be prevented by the security forces. Concessions by the government in 2013 and 2014 have allowed for the resumption of activity in the oil sector, although the commencement of production is unlikely before 2023, and will probably not make significant contributions to government revenue before 2025

Detailed analysis

President Museveni will likely seek re-election, while preparing a relative as long-term successor, despite growing NRM disquiet

President Museveni is highly likely to run for a sixth term, having secured the removal of the constitution's presidential age limit in December 2017, and to seek to push this election back to 2023 (rather than 2021) by extending his current term to seven (rather than five) years via constitutional amendment. In removing the age limit, Museveni was facilitated by 317 legislators of the ruling National Resistance Movement (NRM), who he hailed as the 'new Historicals' (in reference to founding members of the NRM and veterans of the war which brought it to power). Museveni will likely seek nomination as his party's sole candidate at the NRM delegates' conference in 2019 (or later, if the election is pushed back), as occurred at the December 2014 conference. That conference also empowered the party chairman, Museveni, to appoint and dismiss party officials. The president had already been strengthened by the February 2014 reshuffling of residential district commissioners (RDCs), who are local officials that report directly to him. RDCs in previous elections have used their allocated budgets to ensure grass-roots support for the presidency.

Opposition parties lack a unified platform, with the major groups being the Forum for Democratic Change (FDC), Uganda's largest opposition party, the Democratic Party (DP), and the Uganda People's Congress (UPC). Despite briefly coming together under The Democratic Alliance (TDA) banner in the run-up to the 2016 elections, opposition parties are less likely to pose a major threat to the NRM ahead of the 2021 elections due to the ongoing internal conflicts that broke up TDA. NRM dominance at the local level is entrenched by the fact that no elections have been held since 2001. Furthermore, council elections scheduled for November 2017 were likely postponed over fears of NRM losses. In December 2017, legislative and local government terms were extended from five to seven years.

The greatest threat to the NRM is an eventual internal split over Museveni's succession. However, Museveni has effectively neutered internal opposition in the short term. In September 2014, Museveni dismissed Prime Minister Amama Mbabazi, and further sidelined him at the NRM delegates' conference, thus frustrating his attempts to challenge Museveni for the 2016 NRM presidential nomination and forcing him to run as an opposition candidate. A key indicator of increasing fracture within the NRM would be visible expressions of discontent with Museveni's candidacy at party conferences ahead of the 2021 elections.

Beyond 2021, splits over Museveni's succession within the NRM and the military will be increasingly likely. On 12 June 2016, a Ugandan military spokesperson announced that 30 officers had been arrested for allegedly plotting with FDC politician Michael Kabaziguruka to overthrow the president. This followed a June cabinet reshuffle that saw the removal of 35 ministers, and Museveni's wife Janet Museveni appointed as minister for education and sports. These coup allegations were likely intended by Museveni to undermine growing opposition to his fifth term in office and to remove unpopular NRM members. Although the opposition lacks the influence necessary for a successful coup, military disunity represents a growing threat. Museveni is cautiously sidelining the military's old guard and is likely to enhance the responsibilities of his son, Muhoozi Kainerugaba, and other military officers of Kainerugaba's generation as Museveni's family prepares for an eventual familial succession (with Kainerugaba a contender) beyond 2021, or sooner if Museveni's health declines. Kainerugaba was promoted to major-general in May 2016 and commands the military's Special Forces Group, which provides security for the executive and Uganda's oil infrastructure.

The Ugandan government is likely to focus state investment in the power generation, transport infrastructure, and oil sectors

The government has set out an ambitious economic development plan, seeking to transform Uganda into a modern and prosperous nation within 30 years. Under the plan, Vision 2040, Uganda had hoped to become a lower-middle-income country by 2017 (not fully achieved) and an upper-middle-income country by 2032. The latter goal will require significant growth in Uganda's oil sector, which is unlikely to see commercial production before 2023, or significant contributions to government revenue before 2025. Government investment in power and transport infrastructure projects will likely increase, facilitated by greater domestic financing of the budget (now around 70%)., Tourism, minerals, ICT, and agriculture will also be areas of priority for government economic policies aimed at growth, but will be vulnerable to high production costs, global commodity price declines and regional insecurity.

Bank of Uganda (BoU) governor Emmanuel Tumusiime Mutebile is likely the most powerful person in Uganda after the president. A concerted effort by the BoU and foreign donors severely curtailed Museveni's attempts to boost domestic spending during the run up to the 2016 election campaigns, and this resulted in inflation being maintained at around 4.7% for the first half of the 2016–17 financial year – thus avoiding a repeat of the financial crisis that followed government overspending during the 2011 campaigns.

The government has passed new laws that reduce regulatory burdens and improve the investment climate. In 2010, with support from the World Bank, Uganda launched a four-year programme to review and revise investment and commercial laws, many of which dated back to colonial times. In July 2013, a new Insolvency Act (2011) and Companies Act (2012) came into force. In early 2014, amendments to Uganda's procurement laws came into force, and in July 2014 the country passed the Public-Private Partnership (PPP) Law. In December 2014, the government launched a five-year e-procurement strategy to enhance transparency, accountability, and competition in the procurement process, but this is unlikely to significantly reduce corruption risks. The passage of the PPP Law in July 2014 opened up the country for private investment in its infrastructure sector.

Government intervention increases power / mining contract alteration risks, compounded by opacity, lack of accountability in legislative process and legal frameworks

Contract alteration has been made more likely by the ongoing effort by both President Museveni and the Ugandan parliament (involving both the ruling party and opposition) to review contracts and agreements which are perceived to "give too much away" to foreign investors, particularly those who continue to make profits while not meeting agreed production, price (such as energy tariffs) or payment targets. On 20 June 2017, Chinese company Tibet Hima Mining's Kilembe concession contract – which had been granted until 2038 – was cancelled at the order of President Yoweri Museveni, who alleged that the company had failed to pay its concession fee, and that it had secured the concession in 2013 by bribing officials. Rift Valley Railways' rail concession was terminated in October 2017, restored in December, and then terminated again in January 2018.

Contract alteration is less likely in the oil sector due to the disruptive impact this could have on the commencement of oil production, which the government aims to begin in 2020 but is unlikely before 2023, and which Museveni views as a key part of his legacy. The Petroleum Act 2013 offers weak guarantees of transparent and competitive bidding processes, giving broad discretionary powers to the energy minister over contract negotiations and licence disputes. Various parties, including tribal communities such as the Bunyoro, and government entities, such as the Ugandan Wildlife Authority, have demanded revenues from future oil contracts.

In 2010 and 2012, the sale of oil block licences (farm-down deals) prompted disputes between the government and sellers Heritage Oil and Tullow Oil. The government conceded on one major obstacle, the capacity of a new refinery, signing a memorandum of understanding (MoU) with Tullow, Total, and CNOOC in February 2014 to allow production to start. An agreement between the government and a consortium of American, Italian, and Mauritian firms to build a small domestic refinery (instead of the large one originally sought by Museveni) was finally signed in April 2018. Property fraud in areas eyed for oil exploration is a significant problem, sparking disputes between foreign projects and politically-connected Ugandan landowners. While there is no public register of oil licences in Uganda, details of mineral licences are available online, enabling greater transparency.

A parliamentary inquiry into the contract to build a new standard-gauge railway (SGR) line was established following a legal dispute involving two Chinese firms. The government awarded the USD8 billion project to China Harbour Engineering Company (CHEC), despite signing an MoU with China Civil Engineering Construction Corporation (CCECC), which filed a lawsuit that it subsequently withdrew in January 2015.

