

UGANDA

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The country's economy rebounded in the fiscal year 1998/99 from the adverse El Nino weather effects experienced in the previous two years. Uganda achieved a real GDP growth rate of 7.8%, while GDP per capita grew by 5.1%, much faster than in the previous two years. Much of this growth arose from the recovery of the agricultural sector, which grew by 8.1% in the same period compared to 1.9% in 1997/98. The other sources of strong growth were construction and commerce, which increased by 7.7% and 8.2% respectively.

Government fiscal policy was based on three main objectives, namely: maintaining macro-economic stability by restricting expenditures to available resources, redirecting resources towards programmes with the highest potential for poverty reduction, and reducing dependence on external resources through broadening the revenue base in the least distortionary and equitable manner.

Inflation remained very subdued in 1998/99, with negative annual headline inflation rate registered during the first seven months of the financial year. Headline inflation rate turned positive in February 1999 and reached a peak of 5.4% in April 1999. The negative inflation rates was due to the fall in food prices since December 1997 as prices reverted to more normal levels after the weather induced supply shocks. By April 2000, the annual inflation rate declined to 2.0% from 3.2% in March due to a further fall in food prices. It is noteworthy that Uganda has maintained its inflation rate in single digits over the last six years of economic reforms, averaging 5.4% which the government plans to lower it to 0.5% by June 2000.

Consequent to economic policies that support private sector investment, the industrial sector continued its steady growth. This continued buoyancy of the sector was revealed in the index of industrial production, which indicated a 23% rise in February 1999 compared to its previous

level a year ago. The index has steadily risen from 343.3 in February 1988 to 421.9 in February 1999. The preliminary estimates of GDP for the financial year indicates that manufacturing did well in 1998/99, rising by 11.1%. The index for cement production, in particular, rose by 30% from 1529.0 in December 1997 to 1994.0 in December 1998, before declining to 1780.2 by February 1999. The decline was attributed to the annual shutdown of Hima cement works for maintenance.

Mining Industry

The most significant development in the mining sector was the revival of the Uganda Mining Association with a new name of Uganda Chamber of Miners (UCM). Four firms operating in the industry provided US\$14 million to catalyse and facilitate the revival of the organisation and this augurs very well for a more dynamic Chamber.

A national task force was established in April 2000 to chart the way ahead for UCM and the constitution was also adopted. The main objective of UCM is to promote and safeguard the interests and rights of miners. For its part, the government announced that it was reviewing the mineral policy and drafting a new Mining Act for tabling before Parliament shortly.

The other important development was the establishment of a company - Muko Iron Ore Development Co. Ltd (MIDECO) - which was agreed upon at a meeting of stakeholders held in Kampala, Uganda in January 2000. MIDECO's objective is to exploit the Muko iron ore deposits located in southwestern Uganda in Kabale District. This haematite ore is of high quality, averaging over 90% Fe₂O₃. Direct reduction tests carried out on the ore samples in 1980s produced suitable sponge iron pellets as feedstock for electric furnaces.

In view of this, further testwork is being conducted at the University of Zimbabwe to determine the optimum operating parameters to

produce direct reduced iron (DRI) or sponge iron from the Ugandan iron ores using Tanzanian coal as a reductant. This is a component of the Common Market for Eastern and Southern Africa's (COMESA's) programme on the development of an integrated iron and steel industry in the COMESA region. MIDECO plans to use the direct reduction process based on Indian practice to produce sponge iron initially for the domestic market estimated to be 100,000 t/y in the medium term.

During the period under review, the government also indicated that the World Bank would provide US\$17 million over a period of five years to revamp the Geological Survey and Mines Department because it believed that mining was a growth area for diversifying the economy. The first tranche of US\$11 million would be made available shortly of which US\$9 million would be used for aerial survey. This would boost the potential for mining activities in the country.

Meantime, Tororo Cement Industries Ltd (TCIL) embarked on a US\$22 million expansion programme to increase production from the present 150,000 t/y to 400,000 t/y, to be completed in June 2001. The increased cement production would meet the increasing demand for the product while reducing power and fuel consumption to the level equal to similar industries in developed countries. Upon completion, the project will save valuable foreign exchange owing to low fuel consumption and the country will no longer need to import cement, and should be able to export some cement.

Kilembe Mines, on the other hand, remained on a care-and-maintenance basis. However, a proposal was made to undertake an environmental impact study if the mines were to be closed.

Energy

Uganda has an installed hydro-power capacity of only 180 MW compared to a peak demand of 250 MW. This means a power deficit of 70 MW, leading to daily load-shedding which constrains investment and economic diversification. Although load-shedding is in part due to shortage of generation capacity, it can also be partially

attributed to technical losses in the distribution network and hence government is committed to the privatisation of the Uganda Electricity Board (UEB) distribution business.

Nevertheless, efforts to expand power generation capacity intensified with the extension of the Owen Falls hydropower virtually completed. The extension project, which began in January 1994 was partially completed and President Museveni commissioned the eleventh unit with a capacity of 40 MW in May 2000. The twelfth unit with the same capacity will be commissioned in July 2000. This would enhance Uganda's power export to Kenya, Rwanda and Tanzania, which all have inadequate supplies. The project cost US\$233 million and was funded by a consortium of funding agencies including the World Bank, the African Development Bank and UEB.

Given the high capital intensity of energy sector projects and in line with the government's commitment to attract capital and expertise in the provision of utilities, the sector has been opened to private investment. Hence the government concluded a power purchase agreement with AES Nile Power, the potential developer of Bujagali hydro-power site to generate 250 MW while Norpak Power submitted a project plan to Government for the development of Karuma site with a capacity of 150 MW. When these projects are completed in 2004, Uganda will have a combined output of 630 MW and be able to maximise power exports to the region having satisfied the local demand.

To facilitate private sector participation in the energy sector, the government initiated a new legislation, which will lead to a comprehensive Electricity Bill to promote competition and efficiency in the sector for tabling before Parliament. In privatising and reforming the energy sector, government intends to retain the ownership of the assets while the private sector will acquire long-term concessions for existing generation, transmission and distribution businesses. However, a Public Utility Commission will be set up to regulate the sector. Furthermore, the government with the support

of the World Bank was planning for a comprehensive private sector led Rural Electrification Programme with government role to be that of the market regulator.

With regard to the Petroleum sub-sector, the government in 1997, signed two Production Sharing Agreements with two companies: Heritage Oil and Gas Ltd of UK and Hadman Petroleum Ltd of Australia for exclusive exploration rights in Lake Albert/Semuliki basins. Heritage conducted seismic surveys on the area covering Semuliki basin and part of the South Lake Albert and the results, which were positive, were submitted to the government in December 1998. Hadman Petroleum, however, pulled out of its area stretching from Northern Lake Albert and Butiaba-Paara land area citing low world prices of oil and its over-commitment in other businesses elsewhere.

Meanwhile, the feasibility study for the extension of the Kenyan Oil Pipeline to Uganda was completed and submitted to government in March 1999. The report concluded that the project was both feasible and viable with the pipeline to be extended from Edloret to Namanve, just east of Kampala. However, it was recommended that the pipeline be operated as a single continuous entity from Eldoret to Kampala. China National Petroleum Corp. (CNPC) also emerged on the scene in April 2000 to initiate formal discussions with government on the exploration for oil in Uganda. Earlier on, CNPC officials had visited the exploration areas (EAs) in December 1999 to study the petroleum potential before they could apply for exploration rights. It has to be noted that CNPC is the main developer of oilfields in the Sudan which have similar characteristics to the EAs in western Uganda.