COUNTRY ANALYSIS FROM THE EASTERN AFRICA ASSOCIATION

UGANDA - OIL

Uganda's ambitions to become an oil producer have suffered another serious setback. RT Global Resources, the Russian company which had been chosen to build a refinery, storage facilities and a pipeline to transport the surplus oil, has walked away from the deal.

The contract was planned to be finalised in June. The Energy and Mineral Development Ministry claim that, at the last minute, RT sought to renegotiate parts of the contract and made additional demands, unacceptable to the Ugandans. However, there are rumours that the reason the Russians withdrew was that the Ugandan Government had, quite improperly, cashed a US$2 million bid bond lodged by them.

Whatever the reason, RT's withdrawal will have set back the earliest likely date for oil production to begin, probably to 2022 at the earliest. That is assuming that a new contractor can be appointed promptly and that crude oil prices rise. Current levels are still around US$10 per barrel below the estimated cost of extracting Uganda's oil. The Ugandan Government is now planning to re-open negotiations with SK Engineering, the Korean consortium which, in the original bidding round, lost out to RT Global Resources. This assumes they remain interested, which has so far not been confirmed.

Meanwhile, the Ugandan and Tanzanian Governments continue preparations to build an oil export pipeline from Uganda's prospective production areas to Tanga port in Tanzania. It is estimated that the project will cost US$3.55billion, and, according to the two Governments, will start in January 2017 for completion in 2020. Both private companies and other regional governments are being invited to invest in the project. It is however debatable whether, with no oil to transport in the foreseeable future, there will be a positive response. It is also unlikely that Kenya will invest after Uganda dropped them as their oil pipeline partner in favour of Tanzania.

UGANDA AND BREXIT

Since the British Referendum vote to leave the EU, there has been a mixed reaction in Uganda. On the one hand, concern has been expressed at the possible disruption to the financial markets, currency exchange rates, demand for commodities like coffee, and investment prospects. On the other, there has been a rather naive assumption that outside Europe, the UK will revive a Commonwealth free trade area for countries like Uganda.

If the first scenario comes about, it will at least allow the Ugandan Government to blame outside agencies for their own economic management shortcomings.

TANZANIA – BUSINESS

Some businesses clearly preferred working under the old corrupt system, where tax and duty evasion was rife and they were able to benefit from "favoured status" with regard to government contracts, hence they are struggling under the new regime. That is to be welcomed, particularly for foreign investors who clamour for a "more level playing field" but there are growing concerns, and with valid reasons, about a government increasingly working against the private sector and a deteriorating business environment. For example, London-listed Acacia Mining, formerly Barrick Gold Africa, has been forced to make a US$ 70 million tax provision as a result of disputes over past taxes because, it has been argued, they have been allowed to declare years of losses while paying dividends overseas. The company issued a press release denying it was running a "sophisticated tax evasion scheme".

In the banking sector, Standard Bank is mired in a protracted legal dispute over the alleged extraction of funds from an energy company, Independent Power Tanzania, and foreign diplomats are becoming increasingly concerned about the country's investment climate. They believe, despite the rhetoric, there is "an ingrained suspicion amongst most government officials of the private sector" and this "skews how they look at it". The country is ranked 139 out of 189 countries in the World Bank's ease of doing business report and a lack of policy clarity under the new government regime is certainly exacerbating the situation. It is clearly going to be difficult for some to break free from the socialist mentality and distrust of the private sector and, in the meantime, the business environment is going backwards and becoming much more difficult.

In an added twist, the Government is mulling over a possible new law that will compel privatised firms to enlist on the Dar-es-Salaam Stock Exchange (DSE), in a move aimed at "encouraging transparency and good corporate governance, hence making tax administration easier". Although the government has stakes in some of the privatised companies, it could offload these strategically and sell them to Tanzanians, in order to expand the DSE. It is believed "the more active the Exchange becomes, the more enterprises and investors would come to use the local capital market to support the industrialisation drive". However, compulsion and such direct intervention rarely works.

ETHIOPIA – THE ECONOMY

Official estimates have shown that Ethiopia's economy has been growing "by double digits" annually for about a decade now, although many doubt the veracity of the figures. However, the government's increasing reliance on foreign loans poses a serious risk, with China in particular the main creditor. With imports of around US$ 13 billion, exports of just US$ 3 billion and outstanding loans estimated at some US$ 21 billion for various infrastructure projects, there is a strategic economic vulnerability which the current agricultural difficulties can only exacerbate. The year on year inflation rate to May 2016 rose to 7.9%, mainly attributable to the increase in the price of food.

The Government does have an economic plan which involves centralised controls, an industrialisation strategy to create employment and a public infrastructure programme aimed at easing business. However, the role of the private sector, despite encouraging words to foreign investors, remains very limited and the slow pace of economic reform is still viewed as a major obstacle to continued sustainable growth. There is unlikely to be a rapid shift in government policies in the key areas, notably financial services, logistics and telecommunications, and the advice to potential new investors is "be patient, do not expect quick return and go with the flow". Promoting the country to foreign

investors is not succeeding as much as expected, despite apparent generous incentives, and the repayment of loans and foreign debts against a backdrop of a devaluing local currency against the US dollar remains the main concern.