



The President of the Republic Of Uganda
Y.E. Yoweri Kaguta Museveni
State House, Entebbe

Your Excellency,

Subject: Energy sector development concerns

Mr. President, we wish to thank you for the dedicated service you have provided to this country for more than 30 years. Under your leadership, the country has witnessed significant social, economic and political progress. The ongoing development initiatives by the government including the recent approval by the cabinet to issue oil production licenses to oil companies, agreement with Tanzania to build a crude oil export pipeline, discussions with East African leaders to build a joint oil refinery in Hoima district, borrow \$71 million to expand electricity access in rural areas, complete the construction of Karuma and Isimba dams by 2020, distribution of \$4 million worth of free energy savings bulbs to the poor and many other energy development projects provide further opportunities to achieve our national development goals and vision of attaining a middle income status by 2020.

Mr. President, as you have noted before, electricity and oil developments represent a great chance for the country to develop, but also a big risk depending on the quality of our governance as a nation. Indeed, both the National Development Plan (NDP) II and the National Vision 2040 recognize that the electricity and oil subsectors will have to play a massive role in the transformation of Uganda and most importantly to extricate the majority citizens from the current trap of misery. However, if electricity and oil developments are not managed professionally, with maximum transparency, the same sectors have the potential to cause serious environmental, social, economic and political damage that will impact both the current and future generations. Ugandans must understand the reason why all African oil producing countries have continued to suffer extreme debts amidst plenty. They are suffering because of corruption which some government officials connive with powerful individuals in government against the citizens.

This is why for the last six years, the government has been spending over 10 per cent of the national budget on electricity developments, yet today, over 86 per cent of the population has no access to electricity and businesses are crossing partly because the little available electricity is too expensive. Regarding the oil sector, we wish to remind you Mr. President that since the discovery of oil in 2006, the government has not performed well on the issues of governance, transparency and accountability. This is the reason why it took the government over 6 years to put in place some of the new oil laws such as the upstream, midstream and downstream of 2013 and 2015 but again, to date, we still don't have a national local content policy, we don't have oil

regulations for upstream, midstream and downstream and no functioning petroleum authority and national oil company.

On July 3, 2016, the cabinet where you are a chairperson agreed to borrow \$71m (approximately Shs 234.3 billion) for expansion of rural electrification (RE) in line with the 2013/2022 Rural Electrification Strategy and Plan. But where is evidence that the previous investments in the sector are helping Ugandans? Instead, even the households that gained access cannot afford the said power and those who try to use it a sign of prestige, end up failing to feed their children or take them to school. Similarly, in the oil sector, to date, oil companies have invested over \$3 billion (approximately 10 trillion shillings) but as a country we are still failing to commence production. At the end, we have to pay the companies their costs even when the oil activities are in recession. As a result, Ugandans cannot jobs and the private sector will scamper for bail outs from a government that is heavily indebted.

Regarding corruption, since 1986, you have been promising to stamp out corruption the recent report on National Roads Authority (UNRA) and revelations that both Karuma and Isimba dams have serious technical faults clearly indicate that corruption still remains our biggest national challenge. Again, it is corruption that explains why Own Falls and Kiira dams cannot produce power to capacity or why we lost \$220m (approximately Shs726 billion to Tullow against her sale to Total and CNOOC in 2012. It is also corruption that explains why since 2013 when the oil laws were put in place, we have failed to put in place oil regulations and to operationalize the petroleum authority and the national oil company.

Both the electricity and oil sectors in the country are still characterized by political manipulations, secret dealings, Production Sharing Agreements (PSAs) that have bad clauses such as confidentiality clauses, tax exemptions and others. How then do you expect Ugandans to trust your promises of a new Uganda?

For sure, there are many challenges facing electricity and oil sectors in Uganda. They include lack of respect for existing laws by the politicians, weak institutions to implement the laws and supervise the projects efficiently, secrecy in licensing processes, failure to conduct regular audits to assess value for money and others.

Your Excellency, as concerned Ugandans, we would like to ask you to do the following as a measure to address the challenges facing the energy sector in order to maximize electricity and oil benefits for the citizens:

1. Production licenses: You need to appreciate that the oil sector is very technical and requires high levels of skills. For this matter, the government should operationalize the Petroleum Authority and support it to take responsibility of approving or disapproving the issuance of both exploration and production licenses as well negotiation of PSAs. This will allow the technocrats to do the real job and the politicians can use their powers to supervise the authority.
2. Value for money audit regarding rural electrification: Before borrowing the \$71m from the World bank, first conduct an independent audit to establish whether the citizens have been benefiting from the previous investments. The audit should address the issue regarding the impact of current tariffs on the poor and how best

the poor can use the current electricity to improve their lives. It should also provide recommendations such as the use of off-grid electricity such as solar, wind, biogas and others to meet some the energy needs by the poor and isolated communities.

3. Access to information regarding a refinery and pipeline as Uganda's oil development options: Government should make public, information regarding the economic logic for Uganda to build both a refinery and a pipeline. What are the advantages and disadvantages of building a pipeline alone and or a refinery only or building both a refinery and a pipeline at the same time? The government should not commence transactions to spend billions of dollars before providing evidence to the citizens to support the social, environmental, economic and political benefits of such projects.
4. The cost of Karuma and Isimba dams: While we are still stuck with the high costs of Bujagali dam, there is fear that both Karuma and Isimba dams are the most expensive dams in Africa. Today, Ethiopia is building a 6,000mw dam at a cost of \$4.8 billion while our Karuma dam of 600mw will cost \$1.7 billion. There is for the government to work with the parliament to investigate the cost and quality of the two dams. High costs of dams and corruption in distribution is the reason why 35 million Ugandans cannot consume 850mw during off-peak time. Without transparency, government will struggle to get consumers for Karuma and Isimba power but whether we consume it or not, as tax payers, we shall be compelled to pay the returns on investments that are always guaranteed by our government. Indeed, building a dam is important but ensuring that the cost is competitive both nationally and internationally-(a factor that is always ignored by our government), is the most important. Even the East African and African power pools will help us if our power is too expensive. So, we need to investigate and close the gaps.
5. Power as a big factor of production: Government must appreciate that the current crisis facing the business community who are asking for bail out are symptoms of deeper problems ranging from high costs of production. Companies like Uchum closed but as a country, we did not care investigate why they closed. Now, our own are closing and we think the solution is bail out. Bailing out is good but if its done before addressing the defects in production factors such as the cost of electricity, it will not help.
6. Mortgaging oil: We are concerned that since the discovery of oil in 2006, the borrowing by the government has continued to increase steadily and it is clear that other than oil, we don't have any other source to generate money to pay back the billions of dollars being accumulated in debts. So, it is logical to conclude that the government is borrowing against the oil that is still underground, and this is a big mistake. These are the mistakes that explain why majority African oil producing countries the biggest indebted governments in the world. Let's not take Uganda to that direction.
7. Off-grid electricity solutions: The government, instead of spending billions of money to extend grid power to isolated and rural poor communities, it should invest in solar, wind, biogas and other renewable technologies to provide clean energy to households where they will not be required to pay monthly bills. After

all, the available evidence indicate that that even those who have grid power, they use less than 15 Kwh units per month and these can be supplied by off-grid technologies. In effect, grid power should ring fenced for industrial parks and areas where a lot of electricity is needed for manufacturing. But for off-grid to reach every corner and household in Uganda, our government must take a deliberate step to invest in the subsector and not leave it completely to private companies. It is also necessary that those managing the off grid and grid power projects connect to avoid wastes.

Your Excellency, we hope, you will put our proposals into considerations for the benefits of the citizens.

Yours Sincerely

1. Africa Institute for Energy Governance (AFIEGO)
2. Guild Presidents Forum on Oil Governance (GPFOG)
3. Green Organization Kyambogo
4. Oil Residents Association
5. Grafeni Butimba