UGANDA

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Uganda's real economy has doubled in the past ten years during which time inflation was kept below 5% and poverty levels declined from 56% to 35%. However, the progress which the country has achieved to date has largely benefited the urban population as poverty levels have worsened in the rural areas where most of the people live.

The GDP registered 5.1% growth which was lower than the target of 7% but higher than the 4.7% achieved in 1999/2000. The failure to achieve the planned growth rates during the past two consecutive years was attributed to the negative impact of the terms of trade shock arising from declining coffee prices and higher oil prices.

Minerals Industry

Although the mining sector in Uganda was dormant for many years owing to political instability, there was marked progress in the sector during the past decade. However, during 2001, the UN Security Council threatened to impose sanctions on Uganda's minerals but the Uganda Chamber of Mines appealed to the UN not to do so as this would impact negatively on current and future investments in the sector. The reason for the appeal was that all the minerals, namely gold, cobalt, columbite/tantalite, diamonds and copper, were all being mined in Uganda and were not being brought from the Democratic Republic of Congo (DRC) as alleged in some quarters.

The country's mineral production and export figures for the year 2000 showed a marked improvement compared with 1999. The total out put was valued at USh120 billion for the year 2000 compared to USh77.7 billion in 1999. Gold registered the highest export value at USh98.9 billion with 7 t of gold exported in 2000 compared with 5.5 t in 1999. The total recorded mineral production amounted to 409,150 t in 2000 against 133,781 t in 1999. Cobalt production rose from 69.5 t in 1999 to 394.7 t in 2000 against the full plant capacity of 1,000 t/y. The earnings from cobalt were USh20.7 billion in 2000 compared to USh3.44 billion in 1999 when cobalt production began. The third most important mineral export in 2000 was wolfram ore, for which earnings shot up by 1500% to USh496 million in 2000 compared with USh31.5 million in 1999.

Surveys undertaken in southern Uganda indicate that the country may have minerals similar to those in the Katanga region of the Democratic Republic of Congo. However, the resources needed to determine the quality and quantity of the minerals have not been forthcoming. In 1996, for example, the government requested US$25 million from the World Bank for the mining sector development programme but no response was received from the World Bank. However, the exploration of minerals in southern Uganda would stimulate the economy through boosting foreign exchange earnings and reducing the country's reliance on a few export crops such as coffee, tea and cotton. With regard to the phosphates fertiliser project, Madhvani International sought permission from the government to undertake a US$3 million feasibility study to convince its two partners that the project is viable. The government, in its turn, requested the EU to consider financing the feasibility study at the time of compiling this report. Madhvani's partners in this project are Foskor of South Africa and Rhodia Chimie of France. The project, if implemented, would earn the country US$200 million annually and markets have been identified in India and China

Meanwhile, Busitema Mining Co., which in 1994 launched an exploration programme for gold deposits in Tira village, Busitema Sub-county in Busia District, built a mining shaft 54 m deep and completed 300 m underground tunnelling. The company has been mining some gold over the past four years and intended to embark on commercial production in March 2002.

During the year under review, the majority shareholder in Kassese Cobalt Company Ltd (KCCL), Banff Resources of Canada, decided to sell off its shares in KCCL in order to concentrate on its core activity of gold mining. Banff lost US$1 million as at June 2001, up from US$0.3 million lost last year due to low prices of cobalt in world markets.

Nevertheless, cobalt production had stabilised although throughput was still below design capacity. The plant was expected to reach break-even levels by the end of 2001. The plant extracts cobalt from pyrites concentrates through a combination of bio-leaching and solvent extraction/electro winning. Production had stabilised around 50 t/mth compared with 83 t/mth at full design capacity. Banff Resources was therefore looking for a buyer who would adjust the bio-oxidation unit to process cobalt more efficiently. Fortunately, the political unrest in Kasese district never affected the operations of the plant.

Iron ore mining also featured in the news during the year. Muko Iron Ore Development Co. budgeted USh1.4 billion to develop the iron ore deposits in Muko, Kabale District, resulting in the initiation of mining activities. The company intends to process the iron ore into steel products for both the domestic and regional markets.

To revitalise mining activities in Uganda, the government has implemented a mineral policy targeted at small-scale miners. The new policy is designed to stimulate investments in the sector through encouraging private sector participation. It shall put in place an investor-friendly legal framework and maintain a predictable and progressive tax regime. The policy would provide light-handed regulation; information on available production and marketing facilities; and avail extension services to the miners.

All in all, the government granted 21 prospecting and 11 exclusive prospecting licences to individuals and companies during the fiscal year 2000/2001; and 22 mineral dealers were also given licences.

Energy Sector

The completion of two units at Kiira power station added 80 MW to the national hydropower grid. Accordingly, electricity generation was expected to increase by 6% in 2001. Electricity exports grew strongly from US$13.8 million in 1999 to US$17 million in 2001. Meanwhile, the divestiture of Uganda Electricity Board (UEB) was completed and three companies were established to replace UEB. However, government chose to retain the control of one of the companies - the Uganda Electricity Transmission Co. Ltd (UECTL) - because it deemed it to be strategic for government to manage transmission. This would facilitate the rural electrification programme as government considers it necessary to transport power to areas of low demand.

Nonetheless, the government remained committed to liberalising the power generation sector and hence AES Nile Power, an independent power generation company, was allowed to proceed with the construction of a US$550 million hydropower dam at Bujagali falls in Jinja. AES Nile Power therefore broke the ground to start the construction phase for this project. Meanwhile, two hydropower stations are to be set up in West Nile, at Nyagak and Olewa, supported by US$3.5 million from the World Bank's Prototype Carbon Fund Facility. The two units would cost US$12 million and are being developed by private interests.

The government was also able to secure an US$89 million loan from the World Bank to start the work on Power IV project at Kiira power station in Jinja. Both the Norwegian and Ugandan Governments are expected to contribute funds to this project.

As regards oil exploration, Heritage Oil and Gas Ltd finalised last year its seismic studies in the Semliki valley in a bid to narrow down the targets for an eventual drilling site. The company is expected shortly to go out to the field to start actual drilling. Meanwhile, the interpretation and processing of the raw data were nearing completion in London at the time of writing this review. Furthermore, the entire test drilling equipment arrived in Uganda in December 2001 and will be transported to the Semliki valley when the company has located the target for an exploration oil well to be drilled. There are good chances that Uganda may have the first ever successful oil well in the country's history drilled soon.

The seismic exercise which Heritage undertook was to find an oil trap. The company was joined by Energy Africa which acquired up to a 50% stake in the bid to exploit possible oil finds in Uganda. Similarly, China National Oil and Gas Exploration and Development Corp. confirmed its interest in joining the search. The other interested parties include Hardman Petroleum of Australia and Global Interests Ltd of the US. These companies were also encouraged by the government's completion of geological and geophysical surveys in Exploration Areas 1 and 5.

Concurrently, the Kenya-Uganda Oil Pipeline Extension from Eldoret to Kampala is expected to start in July 2002 and to be commissioned in January 2005. The 320 km oil pipeline would cost US$80 million but will cut down the costs of importing petroleum products to Uganda, save the country's roads from damages and prevent air pollution. To update the feasibility study, Nexant Ltd was awarded a consultancy contract to review and update the work done to date; undertake detailed evaluation of cost-benefit analysis between competing modes of transport; and make recommendations on the optimal ownership and operational structures of the pipeline.

Outlook

As alluded to earlier on, surveys conducted in the southern part of the country suggest that Uganda may have minerals similar to those in the Katanga region of DRC. However, finding the money required to determine the quality and quantity of the minerals remains problematic. These mineral prospects include wolfram, iron ore, copper, gold and tantalite/columbite. Undoubtedly, therefore, and with a new mining policy and law put in place, there should be greater interest from the private sector to invest in minerals in the medium term. Gold and oil potential, in particular, are likely to receive the most attention in the short term. The oil deal, for instance, could put Uganda on the world oil map if the exploration drilling proves successful. Hence the energy and mining sectors should increase their contributions to the GDP in the short to medium term.

