



# **CSO POSITION PAPER ON THE ENERGY AND MINERAL DEVELOPMENT SECTOR BUDGET FY2018/19**

*The paper is based on the analysis of the FY 2018/19 Ministerial Policy Statement for the Energy and Mineral Development sector  
FY2018/19*



Developed by the Civil Society Budget Advocacy Group and Submitted to the Parliament Committee on Natural Resources.

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## **1.0 INTRODUCTION**

Under the umbrella of the Civil Society Budget Advocacy Group (CSBAG), Civil Society Organizations (CSOs) have been engaging the budget process at local and national level aiming at ensuring that this central process that determines resource mobilization, allocation and utilization, responds to the actual and felt needs of the people and in return, translates into development at macro and micro level.

The views and opinions expressed in this paper are a result of the analysis of the Ministerial Policy Statement (MPS) FY 2018/19 in comparison with CSOs analysis of the NBFP FY 2018/19, the budget committee report, the Auditor General Report and experiences of the participating organizations in the Energy and Mineral Development sector.

### **1.1. Acknowledgements**

The generation of this paper has been a rigorous participatory process involving various civil society organizations including; the Civil Society Coalition on Oil and Gas (CSCO), Citizens Watch-IT (CEWIT), the Natural Resources Governance Institute (NRGI), Advocates Coalition for Development and Environment (ACODE) with technical stewardship of CSBAG secretariat.

We wish to thank the Government of Uganda through the respective organs along the budget process that have created space for NSAs including Civil Society to actively engage in this process as well as the adoption of these prepositions from time to time. Unlike the NBFP FY 2018/19 that never had details to facilitate our engagement and analysis, we are glad that the MPS has by and large provided details and breakdowns in some insistence.

### **1.2. Sector Background**

The Energy and Mineral Development sector's mission is mandated to: "To ensure reliable, adequate and sustainable exploitation, management and utilization of energy and mineral resources for the inclusion and benefit of all people in Uganda" with key objectives to:

- a) Meet the energy needs of Uganda's population for social and economic development in an environmentally sustainable manner;
- b) Use the country's oil and gas resources to contribute to early achievement of poverty eradication and create lasting value to society, and;
- c) Develop the mineral sector for it to contribute significantly to sustainable national economic and social growth

The institutions which contribute to achieving sector objectives include; the Ministry of Energy and Mineral Development, Electricity Regulatory Authority (ERA), Uganda Electricity Generation Company Limited (UEGCL) which manages generation concessions e.g. Eskom Limited, Uganda Electricity Transmission Company (UETCL), Uganda Electricity Distribution Company Limited (UEDCL) which manages distribution concessions like UMEME. The players in petroleum sector include Oil and Gas Exploration and Production Companies like Tullow Oil Limited, Total E&P Uganda Limited and CNOOC Uganda Limited. In the mining sector, the players include Hiima Cement Limited and Tororo Cement Limited.

### **1.3. Compliance with NDP II**

The Second National Development Plan (NDP II) puts great emphasis on the energy sector as it has great potential of contributing to economic growth and poverty alleviation through mineral exports, use of oil and gas for local consumption generation of

electricity and employment generation. Exploitation of minerals and other resources, especially oil, will provide vital resources needed to fund the backlog of infrastructure investments.

The NDP II projected an allocation of UGX 3,467.1bn for the energy sector in the 4<sup>th</sup> year of implementation which is FY 2018/19. This, however, is lower than the estimated UGX 1,698.34bn provided in the Second Budget Call Circular for FY 2018/19. We note that government is, therefore, falling short in meeting the NDP II target in financing to the energy sector by UGX 1,768.76bn which affects that intended plans.

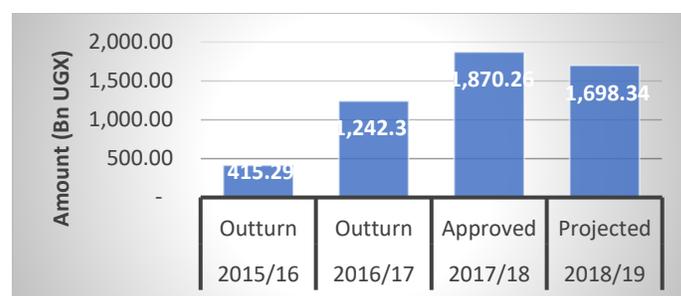
## 2.0 SECTOR BUDGET TRENDS AND PERFORMANCE

This section highlights sector budget allocation, trends and performance; with both financial and physical output aspects.

### Energy sector budget allocation

According to Ministry of Energy and Mineral Development MPS FY 2018/19, the energy sector will experience a decrease in its budget from UGX 1,870.26bn in FY 2017/18 to a proposed UGX 1,698.34bn in FY 2018/19. This decline is still high in comparison to allocations to the other sectors, mainly attributed to ongoing heavy investments in hydropower projects and oil and gas sub-sectors.

**Figure 1: Budget trends in the energy sector FY 2016/17-FY 2018/19 in UGX Billions**



**Source: MPS 2018/19**

The Energy and Mineral Development sector is one of the sectors with the highest budget allocations, expected to receive up to 11.5% of the total budget<sup>1</sup>, channelled to the completion of major infrastructural developments including the constructions hydroelectric power facilities, oil and gas exploration and mineral development. The sector has realized an increase in budget allocation as indicated in table 1 above, most of which is towards development expenditure.

**Table 1: Energy budget allocations and performance over the years**

	2015 /16 Outturn	2016 /17 Outturn	2017 /18 Approved	2018 /19 Projected
Wage	4.76	3.68	4.23	4.23
Non-wage	4.76	2.05	12.58	86.49
GOU	405.77	352.52	292.84	268.23
External financing	37.35	884.06	1,560.53	1,339.22
<b>Total</b>	<b>415.29</b>	<b>1,242.31</b>	<b>1,870.26</b>	<b>1,698.34</b>

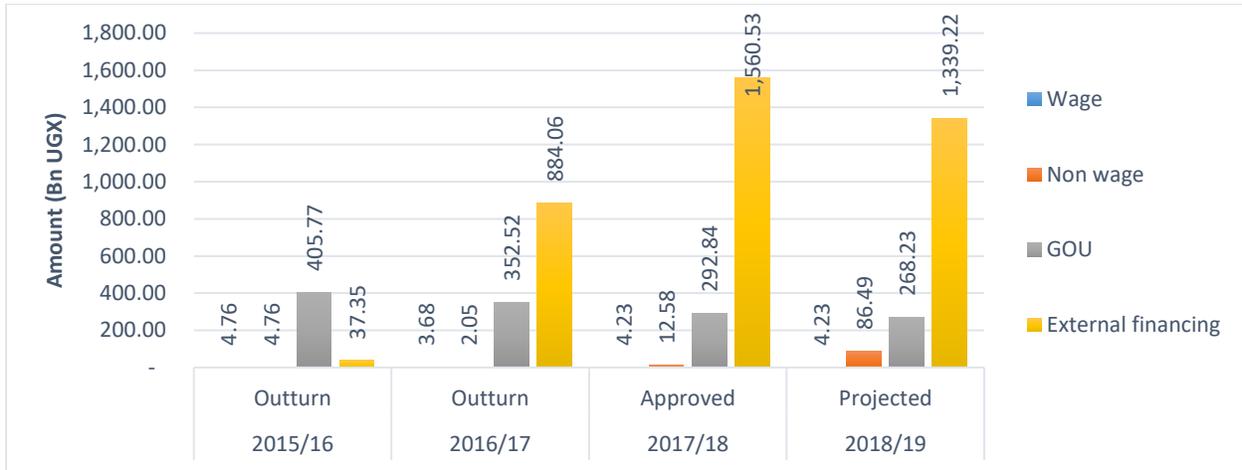
**Source: MPS 2018/19**

Given that a large proportion of the ongoing energy projects are externally financed, over 70% of the overall budget is externally financed to cater for long-term projects

<sup>1</sup> CSBAG computations from the Second Budget Call Circular for FY 2018/19

including the hydropower projects, and oil and gas exploration.

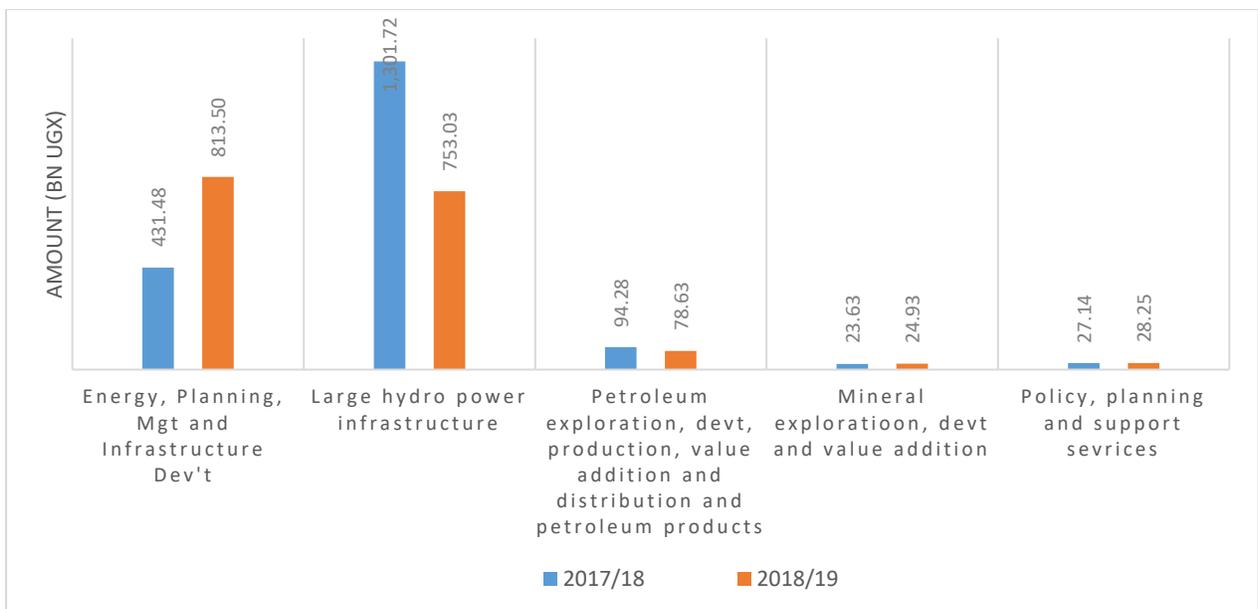
**Figure 2: Energy budget allocations and performance over the years**



**Source: MPS, FY 2018/19**

From the allocations above, hydropower infrastructure takes the largest allocation with 4 ongoing projects (Isimba, Karuma, Muzizi and Nyagak III). The Ministry also intends to invest greatly in mineral wealth and mining infrastructure development and strengthening the development and production phases of the oil and gas sector.

**Figure 3: Comparison of allocation breakdown for FY 2017/18 and 2018/19**



**Source: Computations from MPS, 2018/19**

Mineral Exploration, development and value addition includes geological survey will receive an increase in allocation from 0.23% in FY 2017/18 to 1.02% in FY 2018/19. This speaks volumes about government's level of prioritization of mineral exploration activities versus oil and gas for example. There will be a drop-in allocation in FY 2018/19 as compared to FY 2017/18 as a result of some projects that will be completed by December 2018, including some hydropower projects.

### **3.0 KEY BUDGETARY ISSUES IN THE ENERGY SECTOR AND RECOMMENDATIONS**

#### **3.1 Over-reliance on external financing in the development component:**

In the FY 2016/17 approved budget external financing for development was UGX 884.06bn compared to the Government of Uganda contribution of UGX 352.518bn. In the 2017/18 external funding increased to UGX 1,560.53bn while only budget UGX 292.837 was by GoU. In FY2018/19 external funding will be UGX 1,339.22bn (79%) while GoU contribution will only be UGX 268.23bn (15%). Government is frontloading expenditure on several large projects based on external financing and debts, in expectation of revenues from the oil and gas sector. Exciting as these investments may be, GoU stands a high risk of the projects coming to a halt if external financing is cut off or delayed.

#### **Recommendation**

- Sequencing projects in the energy and minerals sector to minimize the external financing burden at a given time period would be ideal. This will reduce the risk of increasing debt burden to infrastructure expenditure and ensure their effective completion.

#### **3.2 Limited funding for local participation in the oil and gas sector:**

There is a notable delay in finalizing the Local Content Policy and henceforth local content issues, especially in the oil and gas sector are not well funded. The budget for the Skills for Oil and Gas Africa (SOGA) was UGX 5.2bn in FY 2017/18 and UGX 5.36bn in FY 2018/19. There has however not been any additional budgetary allocations to foster local content in the energy and minerals sector, promoting the contribution of the Ugandan population in this sector, especially in oil and gas sub-sector.

#### **Recommendation**

- The Ministry of Energy and Mineral Development should fast-track the passing of the Local Content Policy and provide a budget line of approximately UGX 20bn annually for implementing the Local Content Policy as a seed fund for SMEs doing business in the energy and mineral sector, training and building capacity of SMEs so they can be prequalified to supply goods and services in the sector.

#### **3.3 Inadequate budgetary support for critical mineral exploration and inspection activities:**

In FY 2017/18, the Mineral Exploration, Development and Value Addition sub-sector was allocated only UGX 23.629bn and this only increased slightly to UGX 24.93bn in FY 2018/19. Of this, the Geological Surveys Department only received UGX 0.06bn in FY2017/18. In FY 2018/19, this will be increased to UGX 0.26bn. On the other hand, the Mines Department received only UGX 0.05bn in FY 2017/18 which will be increased to UGX 0.26bn in FY 2018/19. However, in the medium term, this is likely to reduce to UGX 0.05bn in FY 2019/20.

This budget is inadequate to facilitate the sub-sector to achieve its commitment to promote and regulate mineral exploration, development, production and value addition specifically, mine inspection in the medium term. The government has for long relied on private investors in exploration which is not good as we only serve their interests as opposed to Uganda's interest.

#### **Recommendation**

- Improve the budget to undertake critical exploration and inspection mining activities henceforth limit over-reliance on private

#### **3.4 Inadequate funding and staffing in the Mines Department to undertake mineral certification mechanism:**

Out of the established 5 mining site inspectors, there are only 3 mine inspection officers responsible for all the mining regions. This staff is thin and may not be in a position to effectively handle the Regional Certification Mechanism (RCM) which is a requirement of International Conference on Great Lakes Region (ICGLR) since Uganda signed the pact on the Great Lakes Peace, Stability and Development in 2011 and domesticated the same pact in late 2017. Such commitment requires adequate staffing to realize its objectives, for example inspecting 140 mine sites FY 2018/19 cannot be realized with such meagre mine inspection staff.

#### **Recommendation**

- The government should hire at least 8 mine site inspectors to ensure compliance with the Regional Certification Mechanism, and ensure due diligence in accordance with the ICGLR guidelines.

#### **3.5 Delayed Rural Area Power Supplies leading to under absorption of allocated funds:**

Electricity generation and transmission infrastructure projects; right of way refinery feeder pipelines and processing plants; and mining projects have been affected by delays in RAPs. For example, Rural Area Power Supplies (RAPs) for Tembo Steel Ltd - Off (12km) Powerline stood at 33% by end of 2017 and RAP in Hoima, Buliisa is halted due to various complaints from oil and gas host communities. Consequently, this affects absorption levels.

#### **Recommendation**

- Harmonize valuation with CGV and eliminate RAP delays, and adequately budget for RAP

#### **3.6 Lack of independence of the Petroleum Regulatory Authority:**

Currently, the Petroleum Regulatory Authority (PAU), whose mandate to regulate the petroleum sector, is housed under the Ministry of Energy and Mineral Development without an own vote. This is likely to compromise the regulatory function of the Authority.

#### **Recommendation**

- Given its core mandate, the independence of the Petroleum Authority should be emphasized through the formulation of the required policies to guide its operations and interactions with the Ministry of Energy.

#### **3.7 Low investment in renewable energy amidst risks of climate change:**

In FY 2017/18 out of the UGX 431.48bn approved for Energy Planning, Management and Infrastructure Development, the Renewable Energy Department was allocated only UGX 0.11bn. This will be increased to UGX 0.31bn in FY 2018/19. In

a bid to promote Renewable Energy and Energy Efficiency, the government allocated UGX 32.86bn in FY 2017/18. However, this has been reduced to UGX 3.81bn in FY 2018/19, in spite the fact that the country is challenged by climate change.

### Recommendation

- The government should intensify efforts for the exploration and production of fossil fuel, and also start investing in the development of other renewable energy sources, mainly solar, biogas and wind energy.
- The government should also maintain the budget for promotion of renewable energy and energy efficiency at UGX 32.86bn as was the case in FY 2017/18 and perhaps plan to increase this budget in the medium and long-term.

### 6.0. CONCLUSION

The government is highly applauded for the close attention to the energy sector and the consistent steps taken towards the historical production of first oil by FY 2020/21. This is evidenced by heavy investments in the sector for the last few years and still going. However, to strengthen and harness the energy sector, the government should address the above issues in both the immediate, medium and long-term so that the energy sector is vibrant and able to trigger the much awaited economic growth and perhaps usher Uganda into lower middle-income status in the nearest future as highlighted in NDP II.

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