UGANDA

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Economic activities continued to be buoyant in 1999/00 fiscal year with real GDP growth estimated at 5.1%, despite deteriorating external terms of trade, a surge in the world price of oil that pushed up domestic fuel prices, the prolonged drought in the second half of 1999 and the ban by the EU imports of fish from Uganda. The GDP growth rate was lower than the revised growth rate of 7.0% and lower than the revised growth rate of 7.4% achieved in 1998/99.

A major contributor to the decline in economic activity in 1990/00 was the smaller increase in agricultural output, which grew by only 3.0%. The pace of expansion of the manufacturing sector also slowed down compared to the previous six years, but at 8.0% remained robust in 1999/00. The utility sectors also did well with electricity and water sub sectors growing by 11%.

Inflation, which rose to over 10%/mth in the months of September to November, 1999 declined to 2.4% in May, 2000. The rise in inflation was due to the rise in the price of food crops. Underlying inflation also increased slightly in the first half of 1999/200 due to the impact of exchange rate depreciation on the general price levels of imports. Because of the need to keep inflation low *vis-à-vis* the internal and external shocks to the economy during 1999/00, the government maintained a tight fiscal policy stance.

Mineral Industry

The value of mineral production amounted to USh13.1 billion in 1999 compared to USh12.1 billion in 1998. The three minerals that constituted over 90% of the output in 1999 were lime, volcanic ash and limonite. With the exception of large companies engaged in mining and mineral processing such as Hima Cement, Tororo Cement, Kilembe Mines Ltd and Kasese Cobalt Co. Ltd., (KCCL), most mineral production in the country was carried out by small-scale operators and artisan workers.

During the period under review, the French Ambassador to Uganda initiated negotiation with the government to bring the French firm Rhodia Chimie back in to the US$400 million phosphates project with the Madhvani Group on the condition that the government could ensure a mining permit for the company.

Rhodia Chimie had pulled out of the deal in early 2000 citing delays in issuing of the permit. The company had started negotiations to enter the Tororo TSP Project with Madhvani in 1998 and wanted to be a partner in the industrial process as well as a customer for the products. Concurrently Madhvani International, the lead developer, confirmed that the project would proceed as Rhodia Chimie participation would ease the financing of the project and bring technical expertise to one of the largest private sector investments in Uganda.

In the meantime, KCCL commenced the production of cobalt cathode towards the end of 1999 and production was projected to reach 1,000 t/y in 2000.

The exploration expenditure by the private sector was estimated at only US$1 million compared to US$3.5 million in 1998. The main reasons for the low performance were: -

i) The continued fall in the price of gold on the international market. Most exploration companies, which were engaged in gold exploration at the grass roots level had to suspend or abandon their activities awaiting the up turn of the market.

ii) The investment climate in the mining sector remained unattractive to private investment. The outdated mining law – Mining act of 1964, which is not internationally competitive.

A proposed new mining law, still to be enacted by parliament, is expected to create a more favourable environment for mineral exploration and development, and encourage increased activities in the sector.

Energy
The energy sector is characterized by a heavy dependence on biomass, which provides more than 90% of the country's total energy needs. Only 5% of the population has access to grid-based electricity, while less than 1.0% of the rural population has access to electricity.

However, with the commissioning of Unit 11 of the Owen Falls Extension (hydropower) during the year under review, the country now has an installed capacity of 243 MW (with 23 MW installed by thee private sector). Estimated peak demand on the system is 280 MW. This means a power deficit of 60 MW, leading to regular load shedding which is a constraint to investment and economic diversification. The estimated electricity generated in 1999 was 1,341.6 million kwh.

Meanwhile, the privatisation of Uganda Electricity Board (UEB) inched forward with the government splitting it up into three separate companies but parliament held back the process to allow for investigations into alleged corruption in UEB to be completed.

Nevertheless, government remained committed to attracting private capital and expertise in the provision of utilities and concluded a power purchase agreement (PPA) with AES Nile Power, developer of the Bujagali Hydropower site to generate 250 MW, while Norpak Power was holding negotiations with government for the development of a 150 MW power station at Karuma, also on the Nile.

With regard to petroleum exploration and development, government commitment remained intact as the entire oil region in western Uganda was split into five difference exploration area (EPs), each independent from the other. Heritage Oil and Gas Ltd. of the UK, which completed a detailed seismic interpretation of the Semuliki basin, started test drilling for oil in the area at the beginning of 2001.

The Department of Petroleum Exploration and Production confirmed that 80% of geological and geo-physical data had been acquired to facilitate the exploration programme. Heritage Oil and Gas Ltd is drilling a well in EP3.

In the meantime, China National Petroleum Corp. (CNPC), the largest oil company in China, confirmed its interest in undertaking exploration in two of the areas namely EP1 and EP2. Therefore EP4 and EP5 remain free and available for licencing. The discussions between CNPC and the government resulted in the signing of a memorandum of understanding which enables CNPC to undertake the exploration of oil in EP1 and EP2. In this regard China National Oil and Gas Exploration and Development Corp. (CNODC) will undertake the exploration on behalf of NCPC.

If the test drilling yields good results, then Uganda will be able to produce the first barrel of oil in the year 2003. This would also be true of the test drilling by Heritage Oil and Gas Ltd., in EP3.

Outlook
Uganda has achieved strong economic growth and macroeconomic stability in the past decade owing to a sustained implementation of sound economic policies and the reforms since 1987. As a result of this growth, the size of the economy has increased and poverty has decreased somewhat. The continuation of the current policies would therefore help to enhance the performance of the economy and all sectors

would benefit in terms of growth. For the mining sector, in particular, the proposed mining law when enacted by parliament would facilitate the development of the sector as private capital and expertise will be attracted to the sector. Hence, in the short to medium term, there should be increased activities in the mining sector.