

Assessment of the Readiness of the **Banking Sector** to Meet the Requirements of the Oil and **Gas Sector** in Uganda





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Acronyms

No.	Acronym	In Full
1	ACF	Agricultural Credit Facility
2	AfDB	African Development Bank
3	ATM	Automated Teller Machine
4	bopd	barrels of oil per day
5	BoU	Bank of Uganda
6	CB	Commercial Bank
7	CI	Credit Institution
8	CNOOC	China National Offshore Oil Corporation
9	Covid-19	Corona Virus Disease 2019
10	DFI	Development Financial Institution
11	E&P	Exploration and Production
12	EACOP	East African Crude Oil Pipeline
13	EPC	Engineering, Procurement, and Commissioning
14	ESG	Environmental, Social and Governance
15	ESIA	Environmental and Social Impact Assessments
16	FDI	Foreign Direct Investment
17	FGD	Focus Group Discussion
18	FID	Final Investment Decision
19	FX	Forex
20	FEED	Front-End Engineering and Design
21	GDP	Gross Domestic Product
22	GoU	Government of Uganda
23	HSE	Health, Safety and Environment
24	ICT	Information and Communication Technology
25	IFC	International Finance Corporation
26	IOC	International Oil Company
27	IRA	Insurance Regulatory Authority
28	IsDB	Islamic Development Bank
29	JV	Joint Venture
30	LCP	Local Content Policy
31	LNG	Liquefied Natural Gas
32	LPG	Liquified Petroleum Gas
33	MDAs	Ministries, Departments and Agencies
34	MDI	Microfinance Deposit-taking Institution
35	MEMD	Ministry of Energy and Mineral Development
36	MLA	Mandated Lead Arranger
37	MoFPED	Ministry of Finance, Planning and Economic Development



38	MSMEs	Micro, Small and Medium Enterprises
39	NEMA	National Environment Management Authority
40	NGO	Non-Governmental Organization
41	NOGTR	National Oil and Gas Talent Register
42	NPA	National Planning Authority
43	NSD	National Supplier Database
44	O&G	Oil and Gas
45	PAP	Project Affected Person
46	PAU	Petroleum Authority of Uganda
47	PFI	Participating Financial Institution
48	PPDA	Public Procurement and Disposal of Public Assets Authority
49	PPP	Public Private Partnership
50	PRIR	Petroleum Revenue Investment Reserve
51	PSA	Production Sharing Agreement
52	PSC	Pure Service Contract
53	RBL	Reserve-Based Loans
54	RSC	Risk Service Contract
55	SBRF	Small Business Recovery Fund
56	SC	Service Contract
57	SFI	Supervised Financial Institution
58	SHA	Shareholders Agreement
59	SME	Small and Medium Enterprise
60	SPV	Special Purpose Vehicle
61	TEPU	TotalEnergies Exploration and Production Uganda
62	TKDA	Tilenga and Kingfisher Development Area
63	UBA	Uganda Bankers' Association
64	UCF	Uganda Consolidated Fund
65	UCMP	Uganda Chamber of Mines and Petroleum
66	UGX	Uganda Shillings
67	UK	United Kingdom
68	UNOC	Uganda National Oil Company
69	URA	Uganda Revenue Authority
70	US	United States
71	USD	United States Dollars
72	VAT	Value Added Tax
73	WHT	Withholding Tax



Foreword by the Executive Director, Uganda Bankers' Association



The Oil and Gas sector is critical for the growth of Uganda's economy through both direct and indirect linkages. In Uganda, commercial oil reserves were confirmed in 2006 and oil production is set to start in 2025, which presents several opportunities to the banking sector and the entire economy. The Oil and Gas sector has several requirements and challenges, of which financing is a major one and thus the banking sector has a crucial role to play. The banking sector can participate by providing both financial and non-financial services at all or any of the upstream, midstream, or downstream levels. This support can be provided by the Supervised Financial Institutions

independently and/or even through syndication.

However, there is need to assess the readiness of the banking sector to address the needs of the Oil and Gas sector in Uganda, which informed this study that was conducted by the Uganda Bankers' Association in partnership with the Petroleum Authority of Uganda.

Several stakeholders along the Oil and Gas value chain and ecosystem were engaged including the banking sector, different government Ministries, Departments and Agencies, legal firms, contractors at different tiers, International Oil Companies, Contractor Associations, among others.

The findings and recommendations of this report are expected to inform the banking sector strategy and response to address the needs of the various categories of the Oil and Gas Sector players and its entire value chain and ecosystem. They will also inform policy makers, investors, different Oil and Gas sector players, the public sector, as well as the private sector on how to support the Oil and Gas Sector and the available opportunities in the sector.

We express our sincere gratitude to Petroleum Authority Uganda and all who contributed their valuable insights especially the respondents without whom the successful completion of this report would not have been possible.

Wilbrod Humphreys Owor,
Executive Director,
Uganda Bankers' Association.



Foreword by the Executive Director, Petroleum Authority of Uganda

For Uganda to achieve maximum benefits from its oil and gas resources, there is need to ensure that the resources are used as a catalyst for broad based economic growth and development through creation of linkages with other sectors of the economy. Harnessing these linkages will contribute significantly to reducing the impact of volatile exhaustible oil revenues on the country's economy and enhance the use, value and sustainability of the different infrastructure projects that are being set up to support the Oil and Gas sector in the country.

The Petroleum Authority of Uganda, working with its partners, has identified sectors with major potential for positive linkages with the Oil and Gas sector, and these are, Agriculture, Education,

Transport, Tourism, Health, Land use Planning, Construction and Housing. As a result, efforts have been made to study the linkages between these sectors and the oil and gas sector, identifying and defining the investment opportunities in these sectors driven by the oil and gas projects. This study is an additional effort to showcase the transformational impact the banking sector can have on the Oil and Gas sector in Uganda and vice versa.

While the oil and gas projects offer immense opportunities for the country and its citizens, their realization demands significant financial investment. A well-structured and sustainable financing framework is crucial for maximizing the benefits arising out of the oil and gas projects ensuring the long-term socio-economic transformation of Uganda. This study and

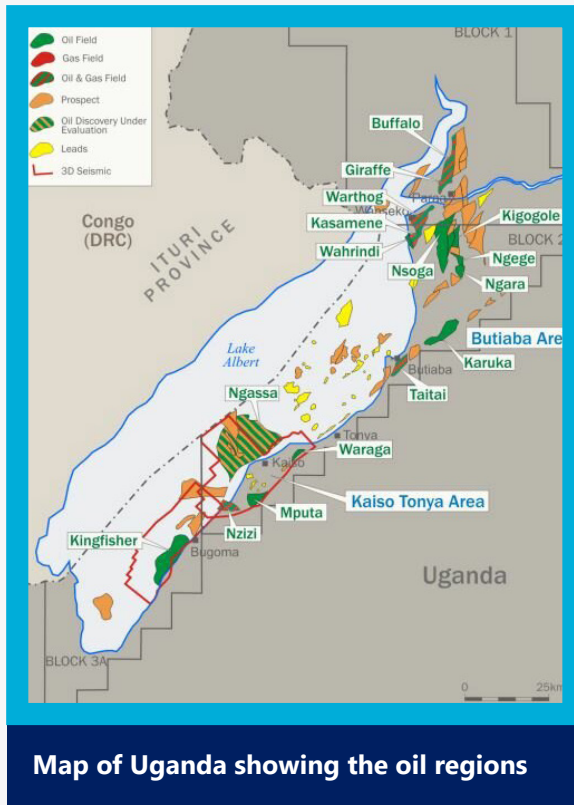
therefore the report, feature the oil and gas driven opportunities identified under the banking sector.

In conclusion, I wish to note that the Petroleum Authority of Uganda is keen on preparing Ugandans to partake of the opportunities that the oil and gas sector presents and pursuing the deepening of sectoral linkages, in order to contribute to Uganda's socio-economic transformation through efficient and sustainable petroleum resource management. Achievement of this goal requires continued collaboration among different stakeholders in both private and public sectors and I therefore call upon policy makers, private investors, and all interested parties to lookout for, and partake of the opportunities that will be highlighted throughout this report.

Ernest Rubondo,
Executive Director,
Petroleum Authority of Uganda.



Executive Summary



Uganda's oil production is set to start in 2025 after a period of nearly two decades since the discovery of commercially viable oil reserves in the Albertine region. In 2022, the government and International Oil Companies (IOCs) signed the Final Investment Decision (FID) which kick-started major investments in the Oil and Gas (O&G) sector. However, inadequate funding remains the

biggest constraint to the fast development of Uganda's O&G sector (Wamono et al., 2012), which informed the need for this study that was done by the Uganda Bankers' Association (UBA), in collaboration with the Petroleum Authority of Uganda (PAU). The overall objective of the study was to assess the current level of participation of the banking sector in the O&G sector, evaluate constraints and readiness, identify gaps

and challenges, and provide recommendations to bridge the gaps. Below is a summary of some of the study findings.

The role of Supervised Financial Institutions (SFIs) in the O&G sector includes provision of affordable and sustainable financing and guarantees, awareness and capacity building, advisory services, technical support, among others. Of the SFIs that lend to the O&G value chain, 56% do not have sector focus, 39% mainly fund downstream, 33% focus on transport, logistics and storage, among other sectors. The sector focus by SFIs is guided by the familiarity, availability of opportunities, capital availability, among others. Majority of the SFIs (48%) asserted that they possess the necessary financial capacity, especially for downstream activities and 52% can leverage resources from their parent or group companies. However, only 47% of SFIs indicated having the requisite skills while 21% stated inability to meet financing requirements for the upstream segment.



All SFI respondents (100%) identified credit risk as the foremost risk, followed by ESG concerns (58%), fraud (53%), execution/performance risk (42%), among others. Some risk mitigation measures include risk ranking, information sharing, client training, regular risk assessment, risk guarantees, among others. The challenges faced by SFIs lending to O&G sector players include limited understanding of the sector by SFIs and players in the O&G ecosystem (81%), capital limitations especially to support upstream projects (52%), little or no collateral provided (33%), lack of experience and expertise by contractors (29%), among others.

To secure bank financing and effectively execute contracts, customers need to ready themselves through; business formalisation (100%), obtaining knowledge about the O&G sector (50%), improving project management, contract execution and Monitoring and Evaluation (M&E) (44%), understanding and negotiating contracts well (44%), among others. In addition, SFIs should support their clients to prepare themselves.

The positive experiences shared by contractors and IOCs about SFIs include seamless digital and internet banking, improved payment systems with better turnaround times, available and supportive relationship managers, presence of Vehicle and Asset finance product lines which have helped with purchase of equipment and vehicles, contract financing and training and upskilling offered by some SFIs at no cost.

However, despite the positive experiences shared, contractors face challenges with SFIs which include poor Turn Around Time (84%), inconsistent and many requirements (68%), high interest rates and penalties (58%), risk averseness by SFIs and high collateral requirements (42%), among others while 21% of the respondents did not experience any challenges with SFIs. The non SFI related challenges

they face include high taxes, inconsistent tax regime, high competition, currency and exchange rate risks, project delays and cancellations, among others.

IOCs provide support to contractors which includes supplier training and skills development programs, facilitating knowledge transfer and providing guidance, active participation in quarterly contractor workshops as required by legal mandates and technical support to companies aiming to achieve ISO standards. The support IOCs provide to the banking sector includes timely payment facilitation and adherence to bank payment specifications.

Several recommendations have been made and are broken into four categories which include recommendations for the SFIs and the contractors, as well as policy and regulatory recommendations. Key among the SFI recommendations are those focusing on ensuring that the SFIs have O&G specific products, services, and units that are well capitalized and enabled to meet the unique needs of the O&G sector and recommendations on dealing with ESG risks. Also key is training and capacity building for both the SFIs and contractors and the increased awareness about the sector along the O&G value chain. Key regulatory and policy recommendations include changes in the reporting framework, establishment and access to funds and risk guarantees that would enable cheaper and longer-term funds. Further recommendations include changes in contracting that will enable easier and quicker payment turnaround times, changes in the tax payments requirements to paying Value Added Tax (VAT) after receipt of payment rather than after invoice issuance, and incentives and rebates to local contractors to increase their share of wallet of oil and gas business.

01

Chapter One: INTRODUCTION



Stock Tank of Oil
initially in place
6.5 billion
barrels



Over **500 billion**
cubic feet of gas

1.1 Background

Uganda is an established petroleum province with an estimated Stock Tank of Oil Initially in Place (STOIP) of 6.5 billion barrels with recoverable 1.4 billion barrels and over 500 billion cubic feet of gas. The Oil and Gas (O&G) sector in Uganda has progressed to the development phase and is steadily making firm and sure steps towards the realization of

first oil scheduled for 2025. On 1st February 2022, the Government of Uganda (GoU) and the International Oil Companies (IOCs) including China National Offshore Oil Corporation (CNOOC) and Total Exploration and Production (E&P) signed the Final Investment Decision (FID) for developing oil fields and constructing critical infrastructure, triggering



approximately
USD 7 billion
have been awarded in
Contracts



USD 13 billion
contracts worth in the
pipeline.

significant activities in the upstream Oil and Gas sector¹. This marked the beginning of the development phase that the companies are currently pursuing. Contracts worth approximately USD 7 billion have been awarded, with more contracts worth USD 13 billion in the pipeline.

However, inadequate funding is one of the biggest constraints to the fast development of Uganda's O&G sector, despite the set target of oil production commencement in 2025 (Wamono et al., 2012), and this is at different stages of the O&G value chain. Some Supervised Financial Institutions (SFIs) are still hesitant to lend to the O&G sector especially because after

stalling of the project in 2018, there were contractor defaults and substantial financial losses for the SFIs that funded the projects. Despite some SFIs being hesitant, some have resumed lending to the O&G sector players at various levels.

Another major challenge to the O&G Sector is the Environmental, Social and Governance (ESG) concerns, along with global pressure to transition to cleaner energy sources, which have also posed obstacles to the timely execution of the projects. The EACOP project has faced delays due to environmental assessments and opposition from various groups for different reasons. Consequently, the situation has notably impacted the engagement of several multinational and foreign funders who had initially pledged their support for the EACOP project. The pullout by these funders, however, presents a promising opportunity for the SFIs in Uganda to participate in financing of these lucrative projects as well the activities in the ecosystem that directly support the O&G sector.

Additionally, fluctuations in international oil prices have influenced the attractiveness of investment in the O&G sector. Nevertheless, the Government of Uganda and the relevant stakeholders have been actively working to address these challenges. While progress has been made, not only have the challenges and external factors affected the development speed of the O&G sector, but they have also negatively impacted the participation of SFIs in the O&G sector.

1.2 The governance of Uganda's Oil and Gas Sector

The governance of Uganda's oil and gas sector is guided by the Petroleum Exploration, Development and Production (PEDP) Act of 2013, the National Oil and Gas Policy of 2008, Petroleum Refining, Conversion, Transmission and Midstream Storage (PRCTMS) Act of 2013 and the attendant regulations. The institutional and regulatory framework is structured around three key entities:

- **The Directorate of Petroleum, operating under the Ministry of Energy and Mineral Development (MEMD), which is responsible for policy formulation, promotion, and licensing of petroleum activities.**
- **The Petroleum Authority of Uganda (PAU), established in 2016, which serves as the regulatory body responsible for monitoring compliance within the Upstream and Midstream petroleum sector.**

¹



- **The Uganda National Oil Company (UNOC), established in 2016, which is tasked with managing the state’s commercial interests in the petroleum sector.**

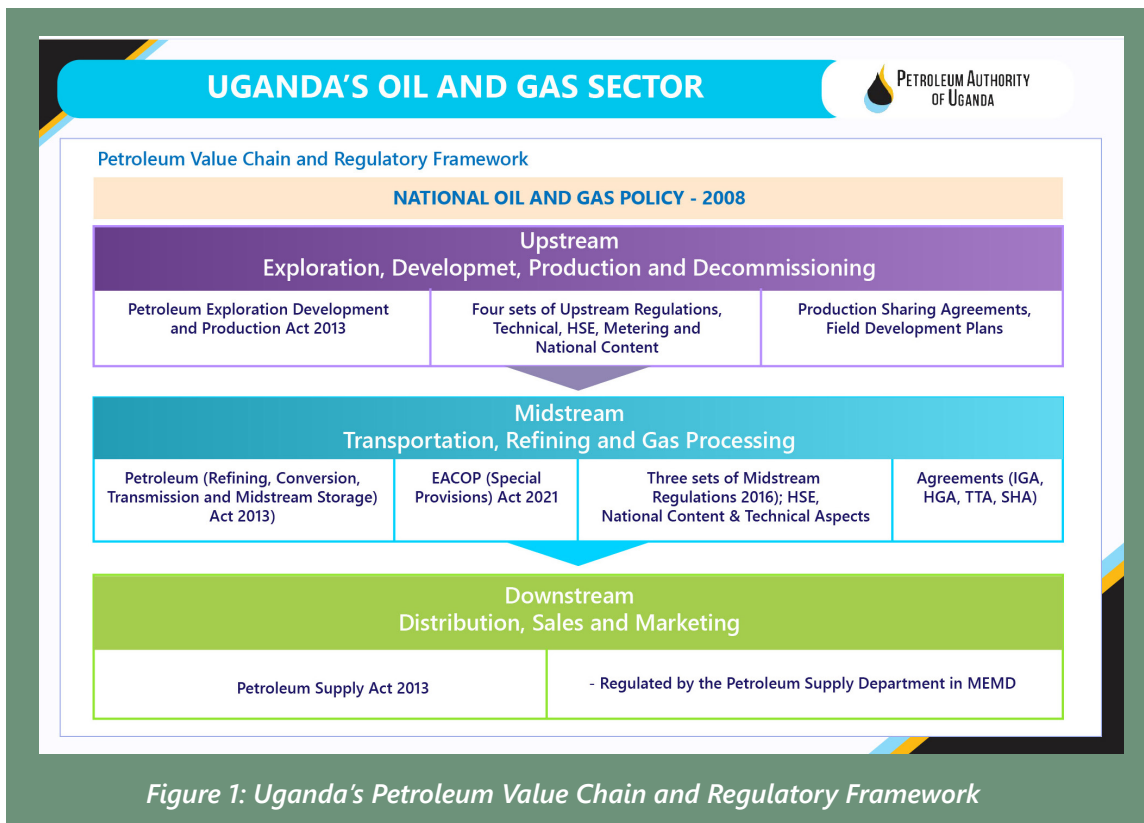
The MEMD Directorate and PAU have National Content Units, with the former focusing on policy formulation, training, and enterprise development, and the latter primarily concentrating on regulation and monitoring compliance. PAU also undertakes national content development initiatives.

1.3 The Oil and Gas value chain

A thorough understanding of the oil and gas value chain reveals the various funding requirements and hence enhanced potential for SFIs in meeting the financial needs of the O&G sector in Uganda. The O&G value chain is divided into three segments:

- **Upstream (exploration, development, and production)**
- **Midstream (transportation, storage, refining and gas processing) and**
- **Downstream (distribution, marketing, and sale to end users)^{2,3}.**

The figure below summarizes Uganda’s oil and gas value chain and the regulatory framework.



²Emily Darko. Short guide summarizing the oil and gas industry lifecycle for a non-technical audience. 2014
³MEMD, The Oil and Gas Sector in Uganda: Frequently Asked Questions. 2019



The O&G segments are expounded upon below^{4,5}

1.3.1 Upstream

The upstream segment, often referred to as Exploration and Production (E&P), includes the following.

- **Exploration** - involves searching for potential O&G reservoirs and the appraisal, which establishes the extent and ease of flow of the underground hydrocarbons.
- **Development** - involves drilling wells and installing facilities and infrastructure for collecting, transporting, and processing commercial quantities of crude oil and gas.
- **Production** - involves bringing oil and gas to the earth's surface and its preparation for transportation and refining.

Decommissioning occurs at the project's end of life when production is no longer economical or at the end of the contract and involves structure dismantling and site restoration to a safe state to eliminate environmental contamination. The upstream segment is the most high-risk segment of the O&G industry. The upstream segment profit margins are impacted substantially by outside forces, such as political instability, international conflicts, and disagreements on supply control by production countries.

Crude Oil Upstream Development operations in Uganda

a) The Tilenga Project

The Tilenga project is operated by TotalEnergies Exploration and Production Uganda (TEPU) on behalf of the Joint Venture Partners (JVPs) comprising of TEPU with the majority participating interest of 56.67%, the China National Offshore

Oil Company (CNOOC) with 28.33%, and the Uganda National Oil Company (UNOC) with 15%. The Tilenga project is one of the two (2) flagship Upstream Petroleum Production projects in the country. The project is projected to produce 190,000 barrels of oil per day (bopd) at peak and associated gas for Liquefied Natural Gas (LPG) worth 80,000 tons per year at peak.

b) The Kingfisher Development Area (KFDA) Project

The KFDA project is operated by the China National Offshore Oil Company (CNOOC) on behalf of the Joint Venture Partners (JVPs) comprising of TEPU with the majority participating interest of 56.67%, the China National Offshore Oil Company (CNOOC) with 28.33%, and the Uganda National Oil Company (UNOC) with 15%. The KFDA project is one of the two (2) flagship Upstream Petroleum Production projects in the country. The project is projected to produce 40,000 bopd of oil at peak and associated gas for LPG worth 20,000 tons per year at peak.

⁴MEMD, the Oil and Gas Sector in Uganda: Frequently Asked Questions. 2019

⁵Eloy Álvarez, Manuel Bravo, Borja Jiménez, Ana Mourão and Robert Schultes, The Oil and Gas value chain: a focus on oil refining. 2018



1.3.2 Midstream

The midstream segment of the oil and gas industry encompasses vital functions related to the bulk transportation and storage of various petroleum commodities, including crude oil, natural gas, and petroleum products. This segment involves multiple modes of transport, such as pipelines, waterways, railways, and roadways, depending on the specific product and the availability of infrastructure. In the midstream segment, crude oil undergoes refining processes to produce various oil products that serve as final consumer goods or feedstock for petrochemical applications.

Refining, a crucial aspect of the midstream segment, involves fractionalizing crude oil and gas to yield valuable petroleum products. Additionally, natural gas is transformed into a liquefied state, known as Liquefied Natural Gas (LNG), to facilitate more convenient transportation and storage. Furthermore, LNG such as ethane and propane, typically associated with natural gas, are separated from the gaseous hydrocarbons during gas processing at plants or field facilities. Another essential midstream activity is product blending, where different petroleum products are skillfully combined to create tailored blends that meet specific market demands and quality requirements^{6,7}. Overall, the midstream segment is pivotal in ensuring the efficient and effective movement of petroleum commodities, making it an integral part of the oil and gas value chain.

Midstream Operations

(a) The East African Crude Oil pipeline (EACOP)

The EACOP is a development project for a heated, insulated, and buried 1,443-kilometre crude oil export pipeline starting at Kabaale, Hoima District in Uganda and terminating at a Marine Storage Terminal and Load Out Facility at Chongoleani, Tanga District in Tanzania, linking the Albertine Graben in Uganda to the international oil market. The pipeline is designed to transport 216,000 barrels of crude oil per day, with a ramp up of up to 246,000 barrels of crude oil per day. The EACOP project is being developed and will be operated by EACOP Limited, a company composed of TotalEnergies SE (62%), Uganda National Oil Company (UNOC) (15%), the Tanzania Petroleum Development Corporation (TPDC) (15%) and the China National Offshore Oil Company (CNOOC) (8%).

⁶<https://www.investopedia.com/terms/n/natural-gas-liquids.asp>
⁷EIA, <https://www.eia.gov/todayinenergy/detail.php?id=5930>

EACOP LIMITED PROJECT SHARE- HOLDERS



(62%) shares



(15%) shares



(15%) shares



(8%) shares

(b) The Uganda Refinery Project

The project includes the development of a 60,000 barrels of oil per day (bopd) refinery, a 211-kilometer multi-products pipeline, a refined product storage terminal, and a raw water pipeline from Lake Albert to the refinery in Kabaale district. The product slate from the refinery will include Diesel, Petrol, LPG, jet fuel, Kerosene and fuel oil which meet the international products (Euro IV) specifications. The implementation of the project is planned to be public sector led



and the government is currently sourcing for the private sector investors.

1.3.3 Downstream

The downstream segment of the oil and gas industry encompasses critical activities related to the marketing, selling, and distribution of processed natural gas and various petroleum products. These products include diesel, Liquefied Petroleum Gas (LPG), gasoline, jet fuel, road asphalt, and petroleum coke. The downstream segment also involves producing and supplying additional products such as lubricants, synthetic rubber, plastics, fertilizers, and pesticides. The ultimate recipients of these processed products, known as end-users, comprise residential and commercial consumers, energy production companies, and various industries. The downstream operations play a significant role in ensuring that these products reach their intended markets efficiently and meet the demands of diverse consumers.

It is worth noting that, at times, both midstream and downstream operations are grouped under the broader classification of downstream operations, given their

interconnected roles in facilitating the movement and utilization of natural gas and petroleum products throughout the value chain. As such, the downstream segment constitutes a crucial component of the oil and gas industry, serving as the bridge that connects the processing and refining stages to the final consumers and industries.

1.4 Contractors in the Oil and Gas Value Chain

The contractors in the oil and gas sector fall in different tiers based on the type of work they undertake and the higher or closer they are to the project operator/Licensee, who is the overall employer in the hierarchy. For example, following the FID announcement in 2022, the contracting process commenced with the award of the major tier one contracts. The tier one contractors are companies contracted directly by the IOCs and the licensees to execute specific contracts or scopes of various activities related to the project. The tier one contractors then subcontract to tier two contractors to perform part of their scope of work. Tier two contractors may also subcontract some of their work scope to tier three contractors. At the bottom of the value chain are the suppliers of raw materials who are not directly contracted by Licensees, for example food suppliers, building material suppliers, among others. All the various stages are interlinked and the challenges at one level are likely to trickle down the value chain.

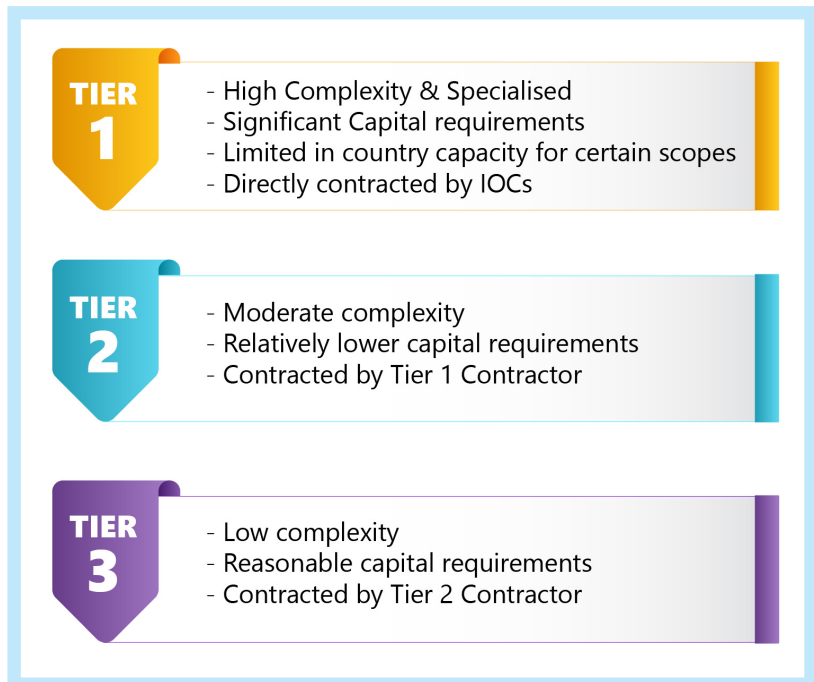


Figure 2: Contract levels in the O&G sector



1.5 Key facts about Uganda's Oil and Gas sector (PAU, 2022)



- O&G projects launched in April 2021 and the FID announced on 1st February 2022
- First oil expected at the beginning of 2025.
- There are 21 oil and gas discoveries.
- Currently, the country is estimated to have about 0.5 trillion cubic feet (tcf) of associated Gas stored underground. 70% to 80% of this gas volume is expected to be recoverable. However, the option for exporting the gas is currently not feasible given the relatively small volumes discovered so far. The associated gas that will be produced with the oil will be mainly used for the following
 - **generation of heat and power/ electricity for use in the O&G operations**
 - **processed to provide Liquefied Petroleum Gas (LPG) which could be sold both locally and regionally.**
- The drilling success rate stands at 88%.
- The total amount of oil in place is estimated to be 6.5 billion barrels, of which approximately 1.4 billion barrels are deemed recoverable resources.
- Currently, there are 9 production licenses issued for 14 fields, assigned to Total Energies and CNOOC.
- Exploration licenses have been granted to Armour Energy, Oranto Petroleum, DGR Global and UNOC.
- In the second licensing round, 5 blocks were on offer for prospective exploration but only two blocks namely, Turaco and Kasurubani were licenced to DGR Global and UNOC respectively.
- 85% of the Albertine Graben remains unlicensed, holding potential for further discoveries.
- In terms of development, there are 2 upstream projects with an estimated combined peak production of 230,000 barrels of oil per day which include:
 - The Tilenga project, operated by TotalEnergies, is expected to reach a peak production of 190,000 barrels of oil per day, with an estimated cost of USD 4-5 billion.
 - The Kingfisher project, operated by CNOOC, is projected to achieve a peak production of 40,000 barrels of oil per day, with an estimated cost of USD 2- 3 billion.
 - **Additionally, there are 2 midstream (commercialisation) projects:**
- The East African crude oil pipeline, spanning 1443 kilometres from Hoima (Uganda) to Tanga (Tanzania).
- The Uganda Refinery project in Hoima, designed with a capacity of 60,000 barrels of oil per day.



According to the National Development Plan III, the oil and gas industry has the potential to transform Uganda's economy. The O&G sector is also central to sustainable development, as oil and gas are key pillars of the energy system and, as such, are drivers of economic and social development. Sustainable exploitation of petroleum resources is important in order to maximize returns for current and future generations. This will require focusing on institutional design and planning for oil-sector efficiency; balancing petroleum resources developments with protection and conservation of natural environment; and strategic investment of petroleum revenues to promote equitable socio-economic and infrastructural transformation of the whole economy.

The key expected results to be achieved over the NDPIII period are:

- (i) Increase national storage for refined petroleum products from 99.1 million litres in 2019 to 150 million litres.**
- (ii) Increase oil and gas revenue from UGX 62.98 billion to UGX 265 billion.**
- (iii) Increase contracts awarded to Ugandan firms in the oil and gas value chain.**
- (iv) Change in the Natural Resource Governance Index from the position of 51.**
- (v) Percentage change in the amount of revenue from oil and gas by 2 percent.**
- (vi) Ugandans employed in the oil and gas and related industries from 3,400 jobs in 2019 to 50,000 jobs.**

1.6 Benefits envisaged from the Oil and Gas sector.

The benefits derived from the O&G sector stem directly from the projects themselves and indirectly through interconnections with other sectors of the economy. These advantages manifest in various forms, such as increased employment opportunities and a robust supply chain for labor, goods, and services. The direct benefits include tax and non-tax revenue, technical advancements, exploration endeavors, and effective resource management. Moreover, the ripple effects of the O&G sector extend to the creation of indirect benefits, including gains in national and community content, as well as the establishment of essential linkages within the sector.

There is a projected upswing in Foreign Direct Investment (FDI) in the country, primarily driven by investments in the O&G sector amounting to USD 20 billion. This infusion of funds will lead the O&G sector toward commercial production by 2025. According to estimates from the PAU, approximately 20%-30% (USD 6 billion) of this investment has been earmarked for the local contractors, fostering the expansion of the industry and services sectors⁸. The O&G sector contributed about 0.5% to Uganda's Gross Development Product (GDP) in 2020/2021 financial year. This is further projected to increase to about 3%-5% of Uganda's GDP in the next 3 years as more oil fields are yet to be explored.

According to Aheebwa (2022), studies show that every USD 1 directly invested in the O&G sector is expected to yield indirect growth of the GDP by USD 0.6. Thus, a direct investment of USD 15 billion in the O&G sector in Uganda is expected to yield an indirect growth of the GDP of about USD 9 billion by the time the first oil is gotten, in addition to the targeted USD 6 billion through fulfillment of the national content requirements. Out of the USD 3.5 billion spent in the exploration phase,

⁸<https://african.business/2023/03/african-banker/bank-of-uganda-oil-will-attract-fdi-in-excess-of-15bn-in-medium-term>



USD 980 million (28%) was retained in Uganda’s economy through Ugandans providing goods and services. Over 145 contracts worth USD 6.8 billion have been concluded in the development phase, that is in the midstream and upstream. The value of contracts confirmed to be executed by tier 1 and tier 2 Ugandan companies is worth about USD 1.73 billion. However, the O&G sector is not the ultimate contributor to the country’s GDP and thus, there is a need to develop other sectors to reduce the overreliance on a single sector and avoid the oil curse.

The 2016 National Content Regulations reserved sixteen (16) categories of goods and services for Ugandan entities. These include transport; security; foods and beverages; hotel accommodation and

catering; human resource management; office supplies; fuel supply; land surveying; clearing and forwarding; crane hire; locally available construction materials; civil works; supply of locally available drilling and production materials; environment studies and impact assessments; communications and information technology services; and waste management, where possible. Out of the contracts worth 6 billion USD executed between August 2021 and June 2022 by the licenses with the Tier 1 Contractors, close to 1.7 billion USD have been awarded to Ugandan companies. Tools like the National Supplier Database (NSD), ringfencing, and the National Oil and Gas Talent Register (NOGTR) have been put in place to enhance participation of Ugandans and Ugandan enterprises in the oil and gas sector.

1.7 Baseline Financing Requirements

The baseline financing requirements as informed by the PAU include:

- (i) **Over 3.8 billion USD invested in the sector at the end of 2021.**
- (ii) **About 15 billion USD expected to be invested in the next 5 years.**
- (iii) **Additional 40 billion USD expected to be invested over the following 25 years of operation and maintenance of the oil fields and other infrastructure.**

The financing requirements for the O&G sector are summarized in the table below.

Table 1: Financing Requirements of the Oil and Gas Sector

Upstream	Midstream
Funding requirements – USD 6 to 9 Bn – through equity and corporate debt	<ul style="list-style-type: none"> ▪ EACOP: Funding requirements – USD 5 billion (D/E 60:40) <ul style="list-style-type: none"> - Negotiation of the FTS with ECAs concluded formal launch of Request for Proposal (RFP) made on 31st March 2022. Possibility to participate in the regional / African tranche. ▪ Refinery: Funding requirements & Project cost – USD 4 to 5 billion ▪ UNOC: Funding requirements of over US\$ 740 million across the value chain; USD 660 million for EACOP and Refinery participation, USD 80 million for the Kampala Storage Terminal, among others.
Contracts worth approximately USD 6 billion have been awarded so far (Aheebwa, 2022).	



FINANCING REQUIREMENTS (CONTRACT LEVEL)			PETROLEUM AUTHORITY OF UGANDA
LICENSE TIER 1 MAIN CONTRACTOR TIER 2 CONTRACTOR TIER 3 CONTRACTOR	Tilenga Project Major contracts -(Over 20 T-1) - US\$ 4-6 Billion	KFDA Project Major contracts (Over 15 T-1)-US\$ 2-3 Billion	EACOP Project Major Contracts (Over 7 T-1) - US\$ 5 Billion
	Industrial Area Site Preparation	PC-1 well pad site preparation, Civilis	EPCM
	Access Roads	EPC-2	EITS
	Bugungu Airstrip Upgrade	EPC-3 CPF	Thermo Insulation
	Wellpads & Lake water Abstraction Site preparation	EPC-4 feedr pipeline	Line Pipes Supply
	Construction Project Management	EPC Construction supervision	Logistics
	EPSCC	Rig Integrated Services	Pipeline Construction
	Mud Logging Services	Drilling Waste Management	AGI Construction
	DD,LWD,BUTS,RTOC Services	Downhole Pressure Gauge	Others
	OCTG	Coring Cutting & Fishing Service	
	Wellheads & Associated Services	ESP & Heat Tracing	
	Waste Management	Wellhead and Xmas tree	
	Fluid Cement & Solid Control	Casting and Tubing	
	Upper & Lower Completion	Drill Bits	
	Drilling Rigs	Screens and Blank Pipes	
Main Logistics Provider (MLP)	Others services Security, Health etc		
INtra-field Logistics Services			
Construction Water Management & Supply			
Others services Security, Health Services			

Figure 3: Financing Requirements at Contract Level (PAU, 2022)

Table 2: Financing requirements of the O&G Sector in the short, medium, and long term

Stage	Activity	Amount
Short term	✓ Completion of Kabalega International Airport	Not known
	✓ Infrastructure Development e.g., access roads, well pads, staff camps, central processing facility, etc.	USD 7 billion
Medium Term	✓ Drilling of wells	USD 5 billion
	✓ Oil production	
	✓ EACOP	
Long Term	✓ Refinery	USD 3 billion Not known Not known
	✓ Industrial Park	
	✓ New Exploration Blocks	

1.8 Financing Opportunities for the Banking Sector

- (i) Financing of the upstream, midstream, downstream, and the supporting projects.
- (ii) Provision of tailor-made financial solutions, especially for sub-contractors and Micro Small and Medium Enterprises (MSMEs) including loan facilities, contract financing, asset leasing, invoice financing, treasury management and forex trading.
- (iii) Local content development fund and provision of funding for key O&G sector projects and activities.
- (iv) Approximately 26 billion USD (EACOP and Tilenga) Insurance cover for the construction and operating period, and other insurances under the Ugandan Law.



1.8.1 Financial Product Solutions

Some financial product solutions relevant to the O&G sector are articulated in the table below.

Table 3: Financial Product Solutions

Exploration and Appraisal	Development and Production	Portfolio Expansion
<ul style="list-style-type: none"> ▪ Initial Public Offering (IPO) ▪ Private Equity ▪ Further shareholding issuance 	<ul style="list-style-type: none"> ▪ Reserve Based Lending ▪ Public Bonds ▪ Retail Bonds ▪ Project Finance ▪ Private Placement ▪ Multi-lateral Development Banks ▪ Mezzanine Finance 	<ul style="list-style-type: none"> ▪ Cashflow from operations ▪ Bank Loans ▪ Public Bonds ▪ Infrastructure Funds ▪ Proceeds from divestment

1.9 The Banking sector in Uganda

The banking sector in Uganda has thirty-six (36) Supervised Financial Institutions (SFIs) which subscribe to the Uganda Bankers' Association (UBA). These include 25 Commercial Banks (CBs), 3 Credit Institutions (CIs), 5 Microfinance Deposit-taking Institutions (MDIs) and 3 Development Finance Institutions (DFIs). The supervision and regulation of banking activity is vested in the Bank of Uganda (BOU). The table below shows the number of SFI branches and Automated Teller Machines (ATMs) in Uganda (Bank of Uganda, 2022).

Table 4: SFI Branches and ATMs in Uganda (Bank of Uganda, 2022)

	2018	2019	2020	2021	2022
CB branches	549	580	566	614	618
ATMs	839	851	837	886	900
MDIs	80	97	98	98	102
CIs	66	66	228	131	169

A comprehensive summary of the loans and advances disbursed by the banking sector as of the end of July 2023 is presented in the table below⁹.

⁹Bank of Uganda 1



Table 5: Loans and Advances by sector in Uganda as of July 2023 (BoU, 2023)

No.	Sector	Amount (million UGX)
1	Agriculture	2,298,694
2	Mining and Quarrying	71,853
3	Manufacturing	2,704,627
4	Trade	3,644,357
5	Transport and Communication	1,208,568
6	Electricity and Water	191,822
7	Building, Mortgage, Construction and Real Estate	4,179,457
8	Business Services	912,316
9	Community, Social & Other Services	668,577
10	Personal Loans and Household Loans	4,626,007
11	Other Services	29,124
	Total	20,535,401

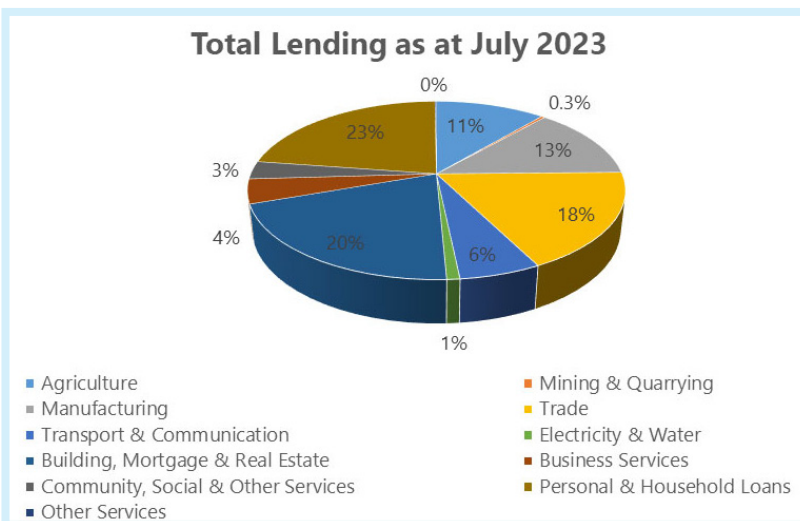


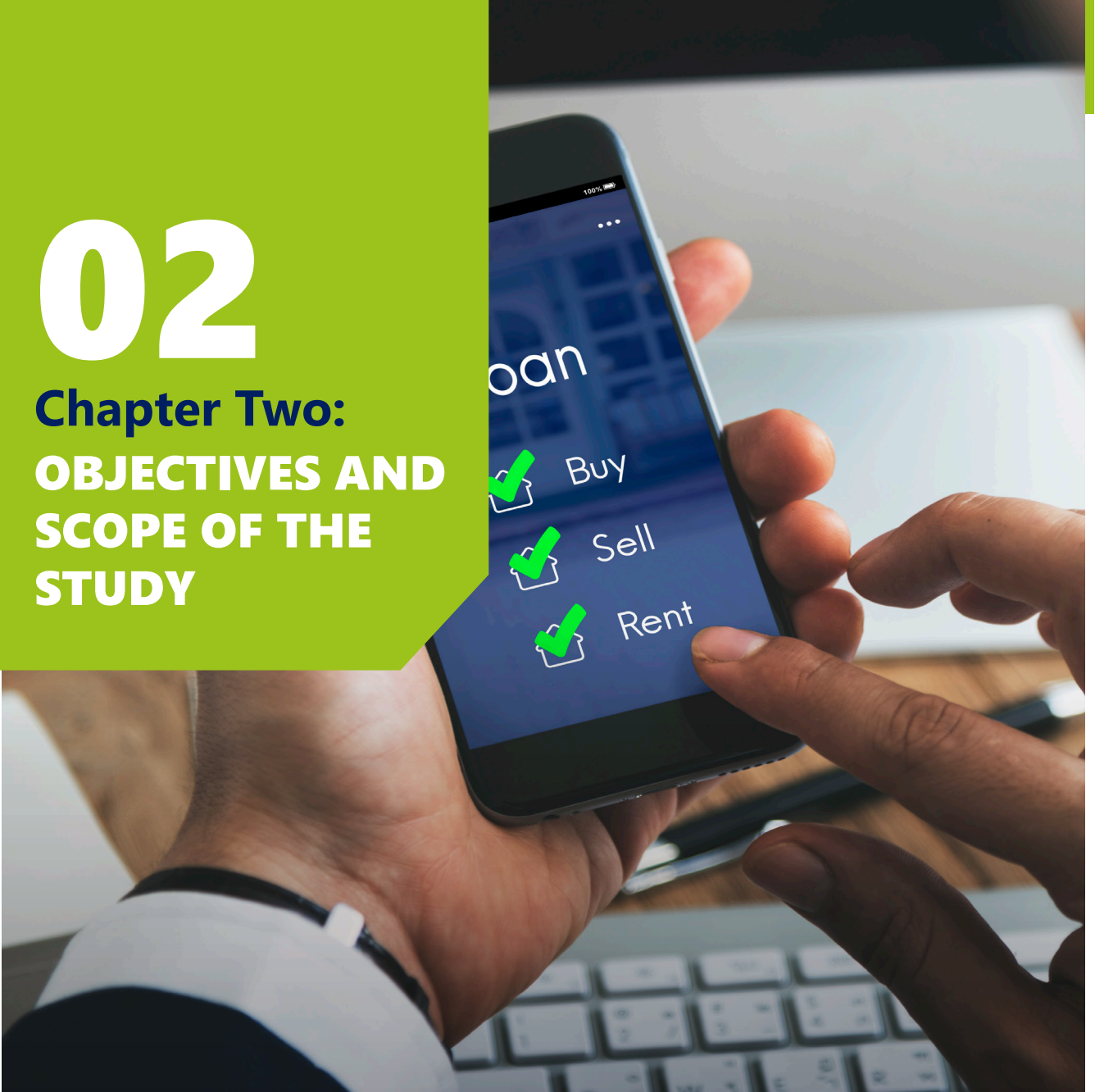
Figure 4: Loans by sector (as at July 2023) (BoU, 2023)

Mining and **quarrying** accounted for only **0.3%** of the total bank lending as at **end February 2023**. Thus, the banking sector should explore opportunities for increasing lending into the oil and gas sector. However, due to the absence of a well-defined reporting standard mandated by **BOU** in respect of the **O&G** sector reporting, it is not clear how much lending has been provided to the sector so far. Nevertheless, some SFIs have implemented internal sector segmentation, categorizing all facilities directly or indirectly linked to the O&G sector.

Note: Mining and quarrying include crude petroleum, natural gas, as well as other mining, and quarrying.

02

Chapter Two: OBJECTIVES AND SCOPE OF THE STUDY



2.1 Objectives of the study

The main objective of the study was to identify and quantify the financial services requirements of the oil and gas sector, assess the current capacity of the banking sector to meet the requirements and propose solutions to accessing affordable financial services. Specifically, the study sought to achieve the following specific objectives: -

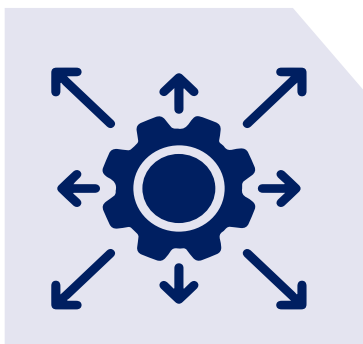
- (i) To define the current participation of the financial services sector in the oil and gas projects. To identify and quantify the financial needs of the sector and its participants at all tiers, in the short, medium, and long term.



- (ii) To evaluate the constraints, as well as the readiness of the local banking and financial services sector to support the oil and gas sector's financial needs.
- (iii) To identify the gaps and challenges encountered by the contractors/service providers and players and propose solutions.
- (iv) To make recommendations that will enable the banking and financial sector to apply itself fully to support the oil & gas sector.

- (a) Specific initiatives by member Supervised Financial institutions (SFIs)**
- (b) Regulatory support accommodations if any**
- (c) Policy implementations by government**
- (d) Dispensations and incentives for SFIs to participate in the Oil and Gas Sector**
- (e) Proposals on how to operationalize, build and participate in the local content fund.**

- (v) To develop a strategy and plan to enhance the participation of local banking and financial services sector in the oil and gas sector.



2.2 Scope of the study

The study involved member financial institutions under the Uganda Bankers' Association, government agencies, oil and gas contractors, and other key stakeholders in the banking and the O&G sectors and value chains. Its primary focus centered on assessing the current involvement of financial institutions in the diverse O&G activities within the value chain, identifying challenges and risks contributing to the participation decisions of financial institutions, understanding the needs of the O&G sector players and sizing the opportunity therein, identifying gaps and challenges faced by contractors and service providers within the O&G sector, and making recommendations that will inform the development of a comprehensive O&G strategy for the banking sector

03

Chapter Three: METHODOLOGY



3.1 Methodological Approach

The research involved collecting data and/or information from Supervised Financial Institutions, operators/ licensees, contractors (tiers 1, 2, and 3) in the oil and gas sector, relevant government Ministries, Departments, and Agencies (MDAs), and regulatory bodies including Bank of Uganda (BoU). Other pivotal partners within the oil and gas sector, including associations, insurance companies as well as service providers in the oil and gas ecosystem were also interviewed. The methodological approach for this study is presented based on the research objectives, activities and expected outcomes as elaborated below.

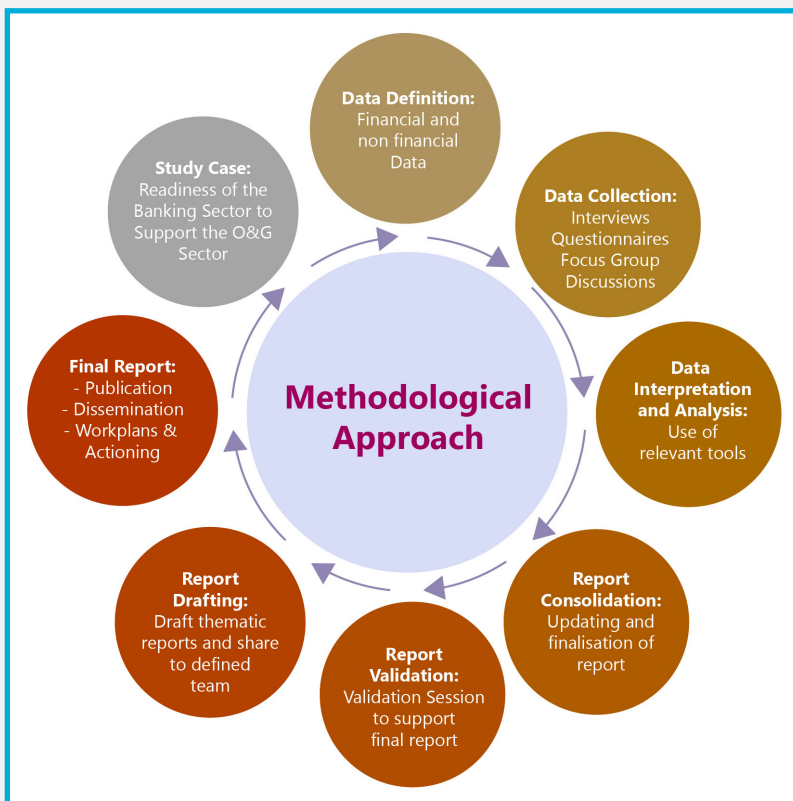


Figure 5: Methodological Approach

3.2 Desk/Literature Review

The team collected, organized, and synthesized both published and non-published literature about the oil and gas sector in Uganda and other key countries including Ghana and Nigeria. The survey involved a comprehensive review of relevant literature including documents, articles, and policies among others, about Uganda’s oil and gas sector, the banking sector, and other stakeholders in the oil and gas value chain. The literature review generated a list of complementary factors, strategies, and models to get a general picture of the phenomenon and develop the groundwork to follow the study.

3.3 Survey Design

The survey applied a mixed methods design involving both quantitative and qualitative methods for data collection and analysis.

3.3.1 Sampling

A stratified sampling approach was used to select the contractors at the different tiers that participated in this study. The companies were grouped into strata/ groups according to their service lines including real estate, hospitality, construction, tourism, agriculture, Information and Communication Technology (ICT), insurance, transport and logistics, health, education, trade, and environment; and their nature of origin, that is, Ugandan, Non-Ugandan, and Joint venture entities. This ensured the proper representation of contractors and the issues spanning a broad spectrum of sectors. The survey necessitated the participation of all financial institutions that are members of UBA.

3.3.2 Primary Data Collection

Primary data was collected using interviews and Focus Group Discussions (FGDs). The interviews were both physical and virtual. From the SFIs, 25 commercial banks, 1 Development Finance Institution, and 2 Micro Finance Institutions participated in the survey. Other key stakeholders included BOU, government



MDAs including Ministry of Energy and Mineral Development (MEMD), Ministry of Finance, Planning and Economic Development (MoFPED), PAU, UNOC, National Planning Authority (NPA), legal and professional firms, Insurance Regulatory Authority (IRA), Uganda Chamber of Mines and Petroleum (UCMP), Uganda Insurers Association (UIA), insurance firms, among others. The list of financial institutions that participated in the survey is presented in **Appendix B**. The contractors that were selected to participate in the survey are presented in **Appendix E**. Other stakeholders that participated in the survey are presented in **Appendices F**. Focus Group Discussions (FGDs) were conducted with different contractors in the oil field camps of King fisher Development Area (KFDA) and Tilenga project.

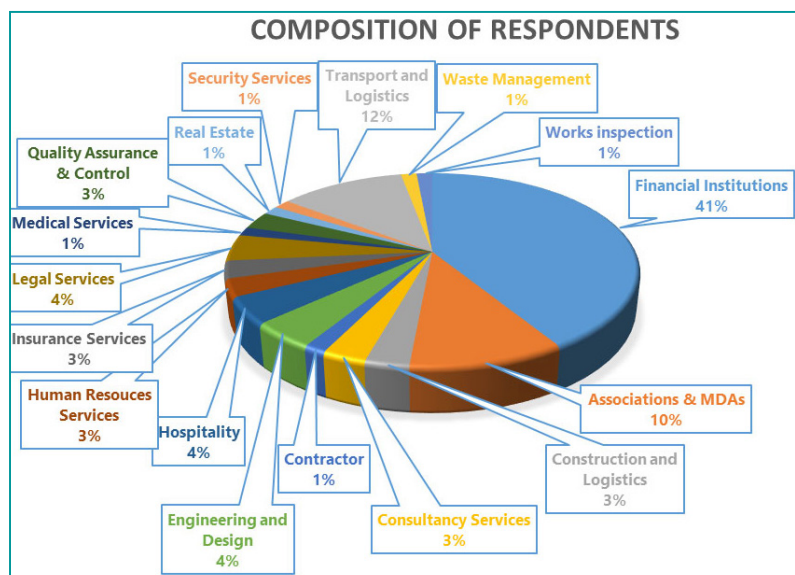


Figure 6: Composition of Respondents

The detailed composition of the respondents is included in the appendices A – F.

3.3.3 Data management and analysis

Structured quantitative and qualitative data collection tools were drafted and reviewed. The data gathered from the open-ended qualitative questions was entered, coded, and systematically analyzed using Microsoft Excel. The findings were then presented in the form of narrative summaries, tables, and charts.

3.4 Data Capture, Storage and Analysis

This involved organizing the raw data into a form that reveals basic patterns so that primary intended users can understand the findings and make sense of the evidence generated by the data. The findings are presented in such a way as to facilitate quick understanding of the results.

3.5 Developing a framework

Also known as coding or indexing, here we identified broad ideas, concepts, behaviors, or phrases and assigned codes to them for example, coding concepts such as the specific responses to a question. Coding was helpful in structuring and labelling the data.

3.6 Identifying patterns and connections

Once the data was coded, we identified themes, looking for the most common responses to questions, identifying data or patterns, and finding areas that can be explored further. The data was analyzed to answer the research objectives. Thematic analysis was then applied using Microsoft Excel, based on coding, and categorizing slices of text into themes and translated into quantitative frequencies and descriptive statistics.



3.7 Report Writing

Based on the interviews, survey and analysis, a report that presented the information and recommendations or strategies that can be adopted to ensure banking sector readiness to support the O&G sector was written.

3.8 Research Dissemination

The final report will then be disseminated to a wider audience of key stakeholders including the SFIs, government MDAs, regulators, development partners, and O&G ecosystem players, among others.

The dissemination will be in a variety of forms including reports, policy briefs, UBA information platform for members, stakeholder dialogue sessions, among others.

3.9 Implementation of Recommendations

Workplans resulting in the implementation of the recommendations are expected as part of the information dissemination, after consultation with the key stakeholders and ensuring commitment thereto.

3.10 Ethical Issues

The following ethical considerations were considered by both UBA and PAU:

- (i) **Confidentiality was ensured throughout the data collection process, analysis, report writing and submission.**
- (ii) **Compliance to agreed study protocol.**
- (iii) **Sensitivity to cultural norms, beliefs, and practices.**

Before data collection began, due care was taken to ensure that ***informed consent*** was obtained from all respondents (*even for photographs*). The informed consent included explanations about the purpose and objectives of the research study, the benefits and risks that could accrue from the study, the rights of the respondents and reassurance on confidentiality.

An opportunity was availed to all respondents to ask questions and/ or seek further clarification before the interviews. Respondents were free to refuse to participate in the study and this will not affect their right to benefit from the project interventions. Confidentiality and integrity of all respondents was observed throughout the course of the study.

Key informants were not directly linked to the comments made during the survey to give them freedom to express their views frankly and freely. All data records were securely kept and confidentiality during data collection and analysis was maintained.

04

Chapter Four: BACKWARD AND FORWARD LINKAGES



4.1 Sectors with positive backward and forward Linkages with the O&G Sector that also provide a lending opportunity to financial institutions

The Petroleum Authority of Uganda has identified sectors that have potential for positive backward and forward linkages with the O&G sector, which also need support from FIs. There is an increasing number of financial institutions opening branches in the main towns of the region, mainly Hoima. However, financial services are still limited in O&G district towns such as Kikuube, Buliisa and Nwoya

(Ayorekire, 2023), which is an opportunity for financial institutions. Financial institutions can play a pivotal role in establishing linkages between the O&G sector and other segments of the economy. This can be achieved through financing designated sectors, facilitating their capacity, not only to cater to the requirements of the O&G sector, but also to surpass them by engaging in exports and value addition activities.

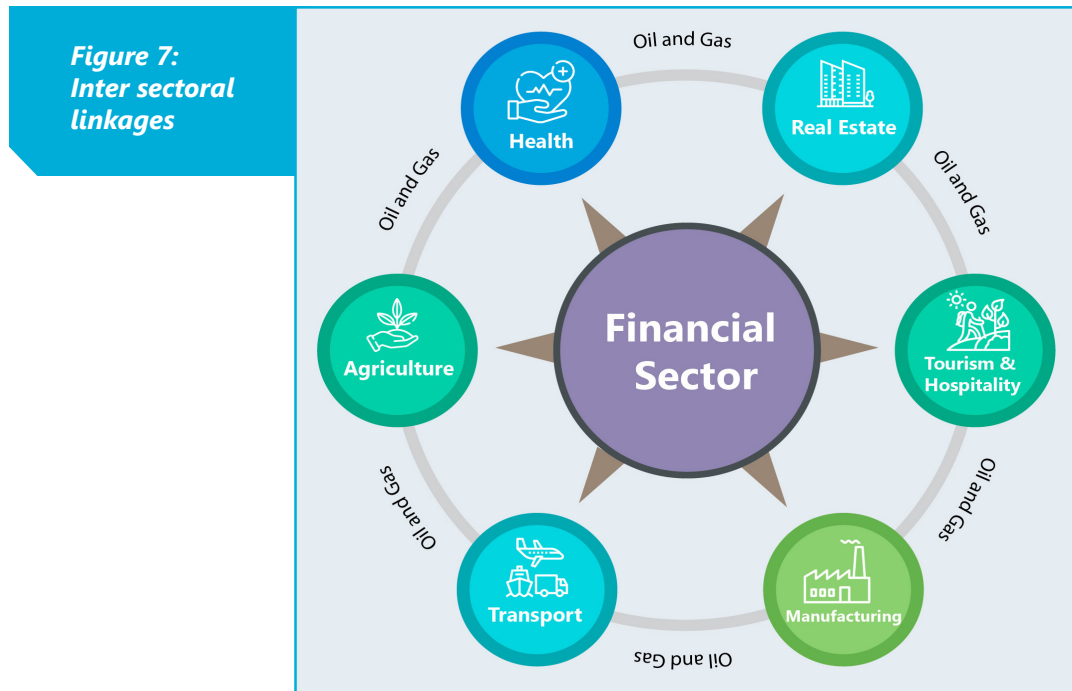
This section therefore delves into the interconnections between the oil and gas sector and other sectors of the economy, emphasizing the opportunities for FIs within each sector.



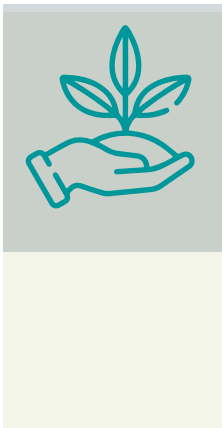
PAU has identified eight sectors as being key to the O&G sector. These include the following.

1.	Agriculture and agri-business
2.	Financing/Insurance
3.	Manufacturing
4.	Education
5.	Transport and Logistics
6.	Tourism
7.	Health
8.	Real Estate including land use, planning, and housing.

The connection between these sectors and the O&G sector is described in the following sections. The figure below illustrates the interconnection between the financial sector, the oil and gas sector, and the mentioned sectors.



4.1.1 Agriculture/ Agri-business



About 10,111 Ugandans are estimated to be directly employed in the O&G sector in the Albertine region, and this number is expected to grow to 13,000 at peak time. There is thus an opportunity to exploit the demand for food expected to be created by the above workforce, the population influx of over 1 million people that will migrate into the oil region by push factors, and the export market because of the Kabalega international airport¹⁰. This population influx is expected to increase demand and market for locally produced food commodities in the region. Furthermore, the improved transport network in the region improves trade in agriculture commodities and eases transportation of produce from gardens to markets and other areas¹¹.

¹⁰<https://pau.go.ug/ugandas-oil-and-gas-projects-the-value-at-stake/>

¹¹<https://acsa-ug.org/harnessing-opportunities-in-the-oil-and-gas-industry-in-uganda-for-smallholder-farmers/>



However, there is need to improve post-harvest handling services, develop capacity for smallholder farmers, research & development, and strengthen supply systems (availing the right crop varieties), build cross-border agri-business linkages, invest in agricultural mechanization, farm level infrastructure (greenhouses and irrigation), value addition facilities for agricultural produce, and logistics (cold chain facilities). Tapping into the above-mentioned opportunities will require incentives such as strengthening of farmer groups, providing agricultural credit, financial literacy, extension services, developing and empowering farmers' SACCOs to facilitate access to markets, among others. All the above-mentioned interventions are mainly private sector-led and require significant capital outlays to kickstart and sustain them. Thus, FIs can play a key role in financing these activities by providing the right financial products and business advisory support systems that will emancipate the agricultural sector players.



4.1.2 Infrastructure including Transport and Logistics

Exploration and production activities within the oil and gas sector require extensive infrastructure, encompassing roads, airports, pipelines, and bridges. In 2021, approximately 800 kilometers of road network worth 600 million USD were planned for the onset of oil production with an estimated lifespan of 15–20 years¹². Currently, the government has constructed approximately 700 kilometers of good, paved road network in the O&G region, enhancing accessibility in the region and is currently finalizing works on the Kabalega International Airport for the export market. These developments present substantial opportunities for the transport sector in the area. The heightened demand for equipment, materials, and personnel transportation has spawned new business prospects for logistics companies and freight operators. This, in turn, creates a niche market for specialized transportation services, including airport shuttle services, logistics, and supply chain management, fueling stations, car dealerships and vehicle repair and maintenance services. There will also be need for infrastructure maintenance and development of marine transport services on lake Albert. The anticipated growth in the transport sector has triggered varied financial needs for different players. Therefore, the financial sector benefits directly by tapping into financing opportunities for investors involved in these transportation-related business ventures, paving the way for backward and forward linkages for the financial, transport, and O&G sectors.



4.1.3 Tourism and Hospitality

The Albertine region is renowned for its oil and gas fields, but it is also Uganda's largest catchment area for prominent national parks. The oil and gas sector development has led to significant improvements in the region's road network, enhancing accessibility and connectivity to the various national parks and tourism sites in the region. The forthcoming Kabalega International Airport is expected to catalyze industry growth, further attracting tourists and local visitors.

¹²<https://www.monitor.co.ug/uganda/business/prosper/uganda-s-big-oil-roads-network-takes-shape--1817094>



This projected increase in visitors will drive the expansion of tourism infrastructure, such as airport hotels, tourism information and interpretation centers, agri-tourism, leisure facilities, and entertainment centers featuring cinemas, theaters, casinos, sports facilities, and discothèques, among others. Although tourism enterprises use services of the FIs, there are hardly any deliberate financial services and packages that have been developed to support tourism investment in the above-mentioned investment opportunities. Thus, FIs can capitalize on these opportunities and avail financial services and packages to prospective investors.



4.1.4 Real Estate/Housing

The housing needs in the O&G sector in the Albertine Graben are expected to rise by 2025, the anticipated year of commencement of actual oil production. According to Stanbic Properties Limited (2023), Nwoya and Kikuube districts are projected to have the highest demand for residential spaces, with projected real estate investments of UGX 77.3 billion and UGX 49.7 billion respectively. On the other hand, Kikuube and Hoima districts will experience the highest demand for retail and office spaces with projected investment of UGX 30 billion and UGX 28.9 billion respectively. These figures indicate lucrative opportunities for real estate developers to invest early and prevent a housing crisis in the area by 2025. As real estate developers seek to tap into the growing market, they will require significant financing to construct residential, commercial, and industrial properties.

The financial sector can play a vital role in providing project financing, construction loans, and working capital to real estate developers. The financial sector can also create financial products like Mortgage-Backed Securities (MBS), or Real Estate Investment Trusts (REITs) backed by real estate assets in the Albertine Graben region. These products can be sold to investors, provide liquidity to the market, and allow investors and real estate developers to participate in the real estate market without owning physical properties. Overall, the opportunities in the real estate sector in the Albertine Graben region can be a significant driver of growth and profitability for the financial sector in Uganda. However, prudent risk management and due diligence will be essential to navigate potential challenges and ensure sustainable growth in the market.



4.1.5 Health

The Oil and Gas Sector in Uganda requires four essential health service categories/ inputs including health emergencies management readiness, occupational health readiness, public health and surveillance readiness, and information management readiness to ensure comprehensive healthcare provision (Bakeera, 2022). Addressing these gaps is essential to optimize the quality and extent of healthcare services in the districts hosting Oil and Gas operations. According to the International Oil and Gas Medical Facilities Checklist (IOGP) (2017), less than 50% of the existing facilities meet the required standards. These standards have more requirements than the available



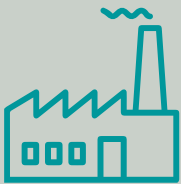
minimum service norms of Uganda's Ministry of Health (MoH) (MoH, 2016). According to Bakeera (2022), there is need for about 2.4 million USD investment to meet the various health sector needs in the O&G region. This highlights significant service gaps that present lucrative investment opportunities, especially considering the expected population expansion in the Albertine region. Considering the anticipated increase in the volume of accidents and emergencies alongside the low per capita health financing, the potential entry points for the private sector to supplement these gaps are enormous.

An estimated revenue generation potential of over 100 million USD annually is projected from a diverse range of clinical and non-clinical opportunities including medical evacuation services, incidental health care, fitness for work examinations, dental services, pharmaceuticals, laboratory services, the supply of medical equipment, the provision of air and road ambulances, intensive care units (ICUs), and accident and emergency units¹³.

However, tapping into these opportunities will require significant financial investments. Financial institutions can thus play a crucial role by offering health-specific financial services and other financing mechanisms tailored for those interested in exploring the vast health service opportunities in the Albertine Graben region. The private sector comes in as a key player to supply these services, however, there is a need to finance these projects by the financial sector.

4.1.6 Manufacturing

National Content is regarded as value added or created in the Ugandan economy through the employment of Ugandan workers and the use of goods produced or available in Uganda and services provided by Ugandan citizens and enterprises. The Government of Uganda acquired 29.57 square kilometres of land to be developed into an oil and gas industrial park, in Kabaale, Hoima District. The industrial park will house the following Petro-chemical industries; polymer, fertilizer, mixed industries, agro-processors, warehousing, and logistics¹⁴. Financial institutions should align themselves to fund the different players that will be involved in this sector.



¹³ <https://pau.go.ug/ugandas-oil-and-gas-projects-the-value-at-stake/>

¹⁴ <https://www.unoc.co.ug/midstream/kabaale-industry-park/>



4.2 Government Financial Support to Different Sectors

4.2.1 The Agricultural Credit Facility (ACF) (BoU, 2023)

In 2009, the ACF was set up by the Government of Uganda, through the Ministry of Finance, Planning and Economic Development (MoFPED), in partnership with Participating Financial Institutions (PFIs) which include Commercial Banks, Uganda Development Bank Ltd (UDB), Micro Deposit taking Institutions (MDIs) and Credit Institutions (CIs). The ACF is administered by Bank of Uganda and its operations are guided by the Memorandum of Understanding (MoU) signed by all the stakeholders. ACF operates on a refinance basis whereby PFIs disburse the entire loan amount (100%) required by the client and then seek for a re-imbursment from BoU (50% of the loan amount).

The major objective of the ACF is to promote commercialization of agriculture through provision of medium- and long-term financing to projects engaged in agriculture, agro-processing, modernization, and mechanization. The ACF provides loans on more favourable terms than are usually available from the PFIs. The ACF has evolved and was amended to address the financing needs of the smallholder farmers. Amendments include financing for agricultural inputs and

farm expansion, grain facility financing, block allocation, and biological assets, among others.

The maximum loan amount to a single borrower is UGX 2.1 billion, but it can be lifted on a case-by-case basis. The maximum loan period is 8 years and minimum is 6 months. The grace period is up to a maximum of 3 years. The interest rate is up to a maximum of 12 percent per annum. Eligible purposes include commercialisation, modernisation, mechanisation, and value addition in the agricultural sector at any stage of the agricultural value chain. Eligible projects include the acquisition of agricultural machinery and post-harvest handling equipment, storage facilities, agricultural inputs that include pesticides and fertilizers, land opening, paddocking, and biological assets that include banana suckers, fruit seedlings, chicks, piglets, cows, and goats for restocking the farm, agro-processing facilities, and any other agricultural and agro-processing related activities.

As of 30 September 2023, the number of cumulative ACF loan applications received was 4,658 with a value of UGX 1,29 trillion and out of these, 3,744 loans were disbursed with a value of

As of 30 September 2023, ACF loan applications received were **4,658** with a value of UGX 1,29 trillion and out of these, **3,744** loans were disbursed with a value of **UGX 840.96 billion**.

Grain trade, primary production (on-farm) and value addition continue to dominate uptake of the ACF loans with UGX 333.86 billion (40%), UGX 262.16 billion (31%) and UGX 155.90 billion (18%) extended to the three areas respectively.



UGX 840.96 billion. 63 per cent of the funded projects belong to micro and small farmers who were financed under the Block Allocation arrangement. Grain trade, primary production (on-farm) and value addition continue to dominate uptake of the ACF loans with UGX 333.86 billion (40%), UGX 262.16 billion (31%) and UGX 155.90 billion (18%) extended to the three areas respectively. In addition, the scheme's repayment rate is still good, with a non-performing loan ratio of only 1.4 per cent.

4.2.2 The Small Business Recovery Fund (SBRF) (BoU, 2023)

In 2021, the Small Business Recovery Fund (SBRF) was established to facilitate the provision of loans to small businesses that suffered financial distress arising from the effects of the Covid-19 pandemic but could show prospects for recovery. The scheme operates as a public-private partnership between the Government of Uganda (GoU) and the Participating Financial Institutions (PFIs) that include Commercial banks, micro-deposit-taking institutions (MDIs) and Credit Institutions (CIs). The SBRF is administered by Bank of Uganda and its operations are

guided by the Memorandum of Understanding (MoU) signed by all the stakeholders. For every loan disbursed to a borrower, a PFI contributes 50 per cent of the loan in line with the risk-sharing mechanism.

As of September 30, 2023, BoU had received 1,802 applications worth UGX 28.64 billion. Out of these, 1,420 applications with a total loan value of UGX 17.61 billion were approved while disbursements totaling UGX 16.00 billion were made to 1,365 eligible projects over the same period. The 1,365 beneficiaries that have been supported since operationalization of the scheme in 2022 are categorised into four main sectors including, trade and commerce which utilised UGX 10.70 billion (67%), the construction sector utilised UGX 2.65 billion (17%), the service/hospitality sector utilised UGX 1.22 billion (7%) and education sector had UGX 1.43 billion (9%) of the total funds disbursed. The businesses that have benefitted include hotels and lodges, transport, salons, bars, schools, carpentry, hardware operators, retail traders, motor garage operators, among others.

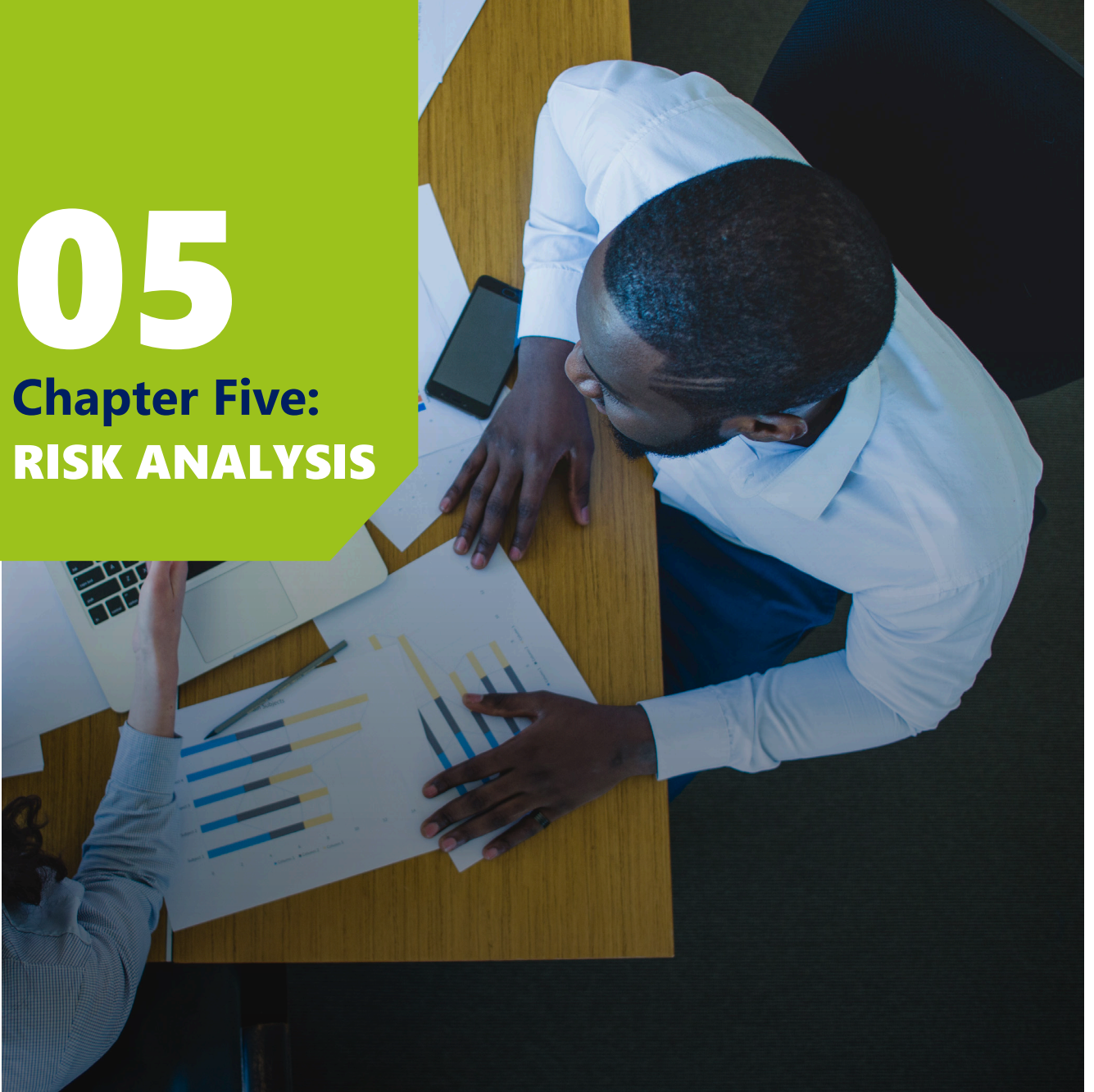
The implementation of these Credit Guarantee Schemes through the public-private partnership has demonstrated

how GoU can leverage private sector resources to provide credit to different sectors of the economy. Engagements with different financial institutions indicated the need for government to set up an O&G fund that can be managed by FIs to support players in the O&G sector, picking from the various government financial interventions mentioned above.

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05

Chapter Five: RISK ANALYSIS



The oil and gas sector and associated energy infrastructure projects take place in a diversity of environmental and socio-economic settings. Energy industry activities are also inherently complex and risky. As a result, oil and gas companies are being exposed to a steady proliferation of policies, laws, guidelines, and other norms applicable to their activities. Increased regulation has expanded the potential for legal, financial, reputational and other liabilities (Wagner and Armstrong, 2010). It is beneficial for a prospective lender to know and understand the risk factors and analyze the same in evaluating credit requests. The Office of the Comptroller of the Currency (OCC) handbook¹⁵, which is the agency that supervises Financial Institutions in the United States of America, defines eight risk categories associated with oil and gas lending which include:

¹⁵Comptroller's handbook, (2016)

EIGHT RISK CATEGORIES ASSOCIATED WITH OIL AND GAS LENDING

1. Credit risks.
2. Interest rate risks
3. Liquidity risks
4. Price risks
5. Operational risks
6. Compliance risks
7. Strategic risks, and
8. Reputation risks



These categories are not mutually exclusive, as a single product or service may expose a bank to multiple risks simultaneously. Risk ranking plays a pivotal role for banks in assessing the potential risks linked to lending to specific oil and gas projects or companies. This evaluation empowers banks to make well-informed decisions regarding loan approvals, loan amounts, and the formulation of appropriate terms and conditions. Moreover, through the systematic assessment and ranking of risks on various projects, banks can effectively manage their risk exposure, leading to enhanced decision-making, risk mitigation, and bolstering the quality of assets in their portfolios.

Further to the above, it is important to be cognizant of the Environment, Health, and Safety (EHS) and social issues that need to be carefully managed alongside geologic, political, and economic risk factors. In addition to EHS concerns, a wide range of social issues, such as human rights, revenue management, ethics, governance, and corruption, have become increasingly significant in terms of both perception and conduct of industry activities. Financing secured by oil and gas reserves exposes the lender to numerous risks.

Table 6: Risk matrix

Risks	Description	Likelihood	Impact	Mitigation Measures
Credit risks	<p>This risk is of significant concern due to its potential to result in substantial losses, particularly given the substantial sums involved. Key aspects include;</p> <ul style="list-style-type: none"> ▪ Default on bank obligations. ▪ Performance or Execution Risk where the company fails to execute a contract, leading to default. ▪ Diversion of Contract proceeds ▪ Insufficient or limited purpose collateral and its disposal challenges ▪ Failure to meet contractual obligations resulting into legal risk and default on bank obligation. ▪ Delayed payments <p>The multifaceted dimensions of credit risk underscore its prominence as a critical concern within the financial sector.</p>	Frequent	High	<p>Instituting proper underwriting standards including;</p> <ul style="list-style-type: none"> ▪ analysis of borrower’s business plan with well supported financial projections. ▪ applying loan structures that are appropriate for the type of borrowing. ▪ Implementing proper monitoring and control measures. ▪ Applying relevant covenants to the loan contract. ▪ Guarantees to manage execution risk



Liquidity risk	<p>The O&G sector requires heavy financing and there can be instances where repayments are delayed or do not happen. This especially affects smaller banks with a high concentration in the sector.</p> <p>Liquidity risk can also be manifested through lack of adequate foreign currency deposits to fund foreign currency domiciled facilities as has been expressed by some FIs</p>	Frequent	High	<ul style="list-style-type: none">▪ Applying prudent concentration limits.▪ Syndicating of large exposures through participation by several banks to manage concentration and sector limits.▪ Frequent stress testing of loan portfolios.▪ Matching the currency of lending especially with due consideration of the foreign currency deposits.
Operational risk	Failure to implement effective monitoring and control systems	Likely	High	Financial institutions should put in place systems to continuously monitor contractors' performance at various stages. This could include reasonableness of budget assumptions and liquidity, working capital adequacy and timely fulfilment of project milestones
Compliance risk	Failure to meet the high standards and requirements of the oil and gas sector by the contractor which can also lead to delayed repayments.	Frequent	High	Financial institutions should ensure proper contract interpretation, have a good appreciation of the oil and gas standards, and also advise clients to adhere to all guidelines and standards
Strategic risk	<p>Failure to have staff with the right skills for oil and gas lending.</p> <p>Failure to put in place the right structures, policies, and systems for O&G lending.</p>	Frequent	High	<ul style="list-style-type: none">▪ Continuously train and upskill the staff involved in oil and gas lending.▪ Develop policies, structures and systems on oil and gas.▪ Continuously review the organisation's strategy on oil and gas and the supporting workplans.



Reputation risk	<p>Negative impact of the projects on the environment, human rights and other ESG related factors.</p> <p>Examples of environmental impacts of the project include oil spills, gas explosions, carbon emissions, among others.</p>	Likely	High	<ul style="list-style-type: none"> Ensuring that environmental impact assessments are done, and guidelines are followed. Following up keenly on any news about human right abuse and acting accordingly. Enforcing internal ESG guidelines in lending to oil and gas projects. Undertaking appropriate due diligence before lending to oil and gas projects to ensure compliance
Price risk	Volatility in prices due to changes in weather, demand, supply, geopolitical events, social trends, macro-economic factors, etc.	Frequent	High	The use of commodity derivatives like swaps, futures, options, and forwards can mitigate the price risk in some cases, but not always, especially when the market is already depressed.
Foreign Exchange Risk	High volatility in the forex market caused by external factors like geopolitical events or central bank actions.	Frequent	High	<ul style="list-style-type: none"> Matching i.e., paying liabilities with receipts denominated in the same currency. Active hedging with financial instruments
Other Risks				
Execution Risks	Inability to execute on a contract, or to execute but experience significant cost overruns			<ul style="list-style-type: none"> Undertake milestone drawdowns. Ensure that the contractors are experienced.
Supplier Risk	Unavailability of feedstock	Likely	High	Carry out frequent checks on reserve levels of crude oil.
Off taker risk	Failure to have reliable buyers of the petroleum products or prices dropping very low	Likely	High	Enter off-take contracts and use hedging instruments to contain price movements
Regulatory Risk	Expiration of Licenses during the loan tenure	Likely	High	Ensure that there is adequate headroom on the tenure of the license in comparison to the tenure of the facility.



5.1 ESG Risks in the O&G Sector in Uganda

ESG (Environmental, Social, and Governance) risks refer to the potential threats to a company's financial performance and reputation arising from environmental, social, or governance factors. These risks can encompass a wide range of issues as discussed below.

a) Environmental Risks

- **Climate Risks.** These are related to the impact of climate change for example extreme weather events, rising sea levels, and regulatory changes aimed at reducing greenhouse gas emissions.
- **Pollution and Contamination risks.** These are associated with pollution of air, water, and soil, including regulatory fines, remediation costs, among others.
- **Biodiversity Loss risks.** These are related to the loss of biodiversity, including habitat destruction, species extinction, among others.
- **Resource Scarcity risks.** These arise from the depletion or scarcity of natural resources, such as water scarcity, deforestation, and mineral depletion.

b) Social Risks

- **Labor Practices.** These risks are associated with labour issues, such as labour disputes, violations of labour rights, discrimination, and unsafe working conditions.

- **Human Rights Violations.** These risks are related to abuse of human rights including forced labour, child labour, indigenous rights violations, and supply chain risks.
- **Community Relations.** These are risks stemming from poor community relations, such as opposition to projects, protests, among others.
- **Product Safety and Liability.** These are risks associated with product safety issues, including product recalls, lawsuits, among others.

c) Governance Risks

- **Bribery and Corruption.** These risks are associated with bribery, corruption, and unethical business practices.
- **Board effectiveness.** These risks are related to the governance structure and practices of the company, including board independence, executive compensation, and conflicts of interest.
- **Corporate Governance Practices.** These are risks arising from weak corporate governance practices, such as inadequate risk management, lack of transparency, and accounting irregularities.
- **Data Privacy and Security.** These risks are related to data privacy and cybersecurity breaches.



5.1.2 ESG Initiatives in the O&G Sector in Uganda (PAU, 2020)

a) Key Environment Protection Initiatives undertaken

Several environment protection initiatives have been undertaken in Uganda and they include the following.

- Update of laws and regulatory frameworks.
- Environment and social impact assessment processes where consultations and public hearings have been held for all projects.
- The national oil spill contingency plan, SEA, Monitoring and Audit plans and multi-institutional monitoring have been done.
- Low carbon emission projects.

b) Key Land Acquisition Initiatives

- Land acquisition is undertaken in line with the existing laws and regulations and in compliance with the international standards.

- Informed consent and adequate and timely compensation to project affected persons (PAPs) is done prior to their relocation and access by the project.
- No land is utilized by the projects before the compensation processes are concluded.
- There is existence of a clear grievance management procedure that is participatory, involves the local leadership and provides solutions based on cultural context.
- A statutory disturbance allowance of 30% and an additional 15% per annum over and above the approved compensation values is observed.
- There is an option for PAPs to choose between cash compensation and land for land, and replacement houses for those whose primary residence is impacted.
- Transitional support is provided in form of food rations for six months, psychosocial support for the resettled PAPs and livelihood improvement

Table 7: Land Acquisition Progress in Uganda (PAU, 2021)

Project	Land Required (acres)	No. of PAPs	No. of PAPs compensated	%
Tilenga	2,901	5,552	5,317	95.8
KFDA	1,258	727	721	99.2
EACOP	2,740	3,510	2,737	78.0

Table 8: Housing Units Progress in Uganda (PAU, 2021)

Project	Total No. of houses to be built	Houses Completed	No. of houses handed over to their owners
Tilenga	205	100	74
KFDA	67	All	All
EACOP	178	86	86



c) Climate Change Initiatives

1. Uganda adopted a new legislative framework to ensure a harmonized and coordinated approach towards a climate resilient and low carbon development path for sustainable development. This framework includes the National Climate Change Policy 2015 and the National Climate Change Act 2021.
2. Uganda's climate change mitigation commitment is described in the 2015 Intended Nationally Determined Contribution (INDC) submission to the United Nations Framework Convention on Climate Change (UNFCCC). This highlighted that Uganda has one of the lowest greenhouse gas emissions per capita globally and has historically made a very small contribution to global Green House Gases (GHGs). Uganda's INDC details a contribution to GHG mitigation with a priority of promoting renewable energy, including the construction of hydropower infrastructure.
3. Uganda's total emissions including land use, land use change and forestry (LULUCF) are estimated to be 77.3 MtCO_{2e} in 2030. The currently stated mitigation target is to reduce emissions by around 22% against the Business-As-Usual (BAU) scenario baseline, resulting in net emissions of 60.3 MtCO_{2e} by 2030.
4. The current O&G projects under development within the country will reach maximum emissions of 13 ktCO₂ and represent a negligible fraction of both Uganda's 2030 BAU emissions and the 2030 emissions under the INDC emission reduction scenario. Therefore, the projects will not impact on meeting the reduction targets.
5. Additionally, LPG and carbon offset projects will be implemented to further address climate mitigation and meet the need for clean and affordable energy of the currently underserved population in the country and region.

5.1.3 ESG Studies done for O&G Projects (PAU, 2020)

The Front-End Engineering and Design (FEED) studies, Environmental and Social Impact Assessment (ESIA) studies, Geotechnical Surveys and several Sub-Surface Studies have been done for the different O&G Projects in Uganda.

These Projects include;

- (a) Tilenga and Kingfisher Development area.
- (b) The Uganda Refinery Project.
- (c) East African Crude Oil Pipeline Project (EACOP).

The purpose of the Front-End Engineering and Design (FEED) studies was to conduct preliminary engineering and design work for the project before beginning the detailed engineering phase. (FEED) studies help define the scope of the project, estimate costs, identify potential technical challenges, and assess the feasibility of the project. They thus provide valuable information to stakeholders and decision makers, enabling them to make informed decisions about whether to proceed with the project.

The purpose of the Environmental and Social Impact Assessment (ESIA) studies is to evaluate the potential environmental and social impacts of a proposed project before it is implemented. (ESIA) studies aim to identify potential risks and impacts to the environment, human, health, and local communities, as well as cultural heritage sites and biodiversity. The findings of (ESIA) studies help project developers, regulators, and stakeholders understand the potential consequences of the project and develop appropriate mitigation measures to minimize negative impacts and enhance positive ones.



5.1.4 EACOP ESG Concerns (EACOP, 2023)

The biggest ESG concerns in the O&G sector in Uganda have been regarding the East African Crude Oil Pipeline (EACOP). However, of the three stages (upstream, midstream, and downstream), the midstream, under which the pipeline falls, produces the least carbon emissions.

There are two major aspects relating to the EACOP that have been most contentious as far as ESG issues are concerned but have been dealt with accordingly as discussed below.

a) Land Acquisition

Land acquisition is a two-phase process where the first is focused on surveying and establishing valuations while the second involves the payment of compensation and establishment of in-kind support programmes. About 13,161 Project Affected Persons (PAPs) along the pipeline route will receive compensation in cash and in-kind directly from EACOP, in line with both National Legislation and the IFC Performance Standards. Most of these PAPs (96%) have some portion of their land impacted and will receive compensation for the full replacement cost of their land, structures, crops, and trees. About 4% of the PAPs also require their primary dwelling to be relocated, and they will be offered replacement houses of a higher standard than their existing dwelling. In addition to cash compensation, most PAPs will also be entitled to in-kind compensation including transitional food support, financial literacy training and access to livelihood restoration programs.

In both Uganda and Tanzania, EACOP has established a field-based team of Community Relations Coordinators, Community Liaison Officers, and an accessible grievance mechanism to maintain constant dialogue between EACOP,

the PAPs and the surrounding communities. PAPs will leave their affected land only after they have been paid their compensation and received their notice to vacate. The compensation process was started in 2021.

b) Environmental Aspects

EACOP has Regulator approved Environmental and Social Impact Assessments (ESIA) for both the Ugandan and Tanzanian sections. The pipeline route was finalised based on rigorous application of the 'avoid, minimise, restore and offset' mitigation hierarchy to integrate the multiple technical, societal, and environmental constraints and weave an optimised right of way (30m width corridor) with the least overall impact, seeking to avoid densely populated and environmentally sensitive areas.

The pipeline route does not go under Lake Victoria or cross any International Union for Conservation of Nature (IUCN) categorised sites. In line with the IFC Performance Standard 6, EACOP is also committed to achieving a Net Gain of biodiversity values in critical habitats and No Net Loss in natural habitats. To minimise greenhouse gas emissions from the operation of the pipeline, EACOP is planning to implement several Carbon Footprint Reduction (CFR) measures including: full electrification of pumping stations in Uganda, where grid electricity is mainly generated from hydroelectric plants; and a hybrid power generation solution in Tanzania combining thermal power generation, solar energy from five solar farms to be installed along the pipeline, battery storage and interconnection to the Tanzanian electricity grid.



5.1.5 Banking Sector ESG Framework

The banking sector in Uganda has adopted an ESG framework with a workplan to ensure implementation underway. ESG is important for the financial services sector because the associated risks and impacts align with the evolving market expectations, regulatory scrutiny, and changing global needs. The framework encourages banks to be increasingly aware of the interconnectedness between financial performance, social and environmental impacts, and governance practices. Embracing ESG principles is not just a matter of compliance but a strategic move towards long-term sustainability and resilience within a changing business landscape.

The ESG framework will support the banking sector in achieving its sustainability goals, assist the clients in transitioning towards low-carbon and resource efficient economies, while also supporting financial inclusivity and social welfare of the sovereign.

06

Chapter Six:

OVERVIEW OF THE LEGAL AND REGULATORY FRAMEWORK GOVERNING AND / OR INFLUENCING THE FINANCING OF THE OIL AND GAS SECTOR BY THE BANKING SECTOR



6.1 Upstream Petroleum Laws

6.1.1 The Petroleum (Exploration, Development and Production) Act, 2013

The objectives of this Act are to regulate petroleum exploration, development, and production. The Act also establishes the Petroleum Authority of Uganda (PAU); provides for the establishment of the Uganda National Oil Company (UNOC); regulates the licensing and participation of commercial entities in petroleum activities; provides for an open, transparent and competitive process of

licensing; provides for efficient and safe petroleum activities; streamlines the cessation of petroleum activities and decommissioning of infrastructure; and provides for payments/revenues arising from petroleum activities.

The law has no legal risk for the banking sector. In terms of opportunities, section 56(8) of the Act gives the Minister of Energy and Mineral Development the discretion to require an applicant of a petroleum production license to execute a bond or other form of security for the performance and observance of the conditions to which the



license may be subject; and take the necessary insurance policies to protect against liabilities that may arise as a result of activities done under the petroleum exploration license.

6.1.2 The Petroleum (Exploration, Development and Production) Regulations, 2016

The Petroleum (Exploration, Development and Production) Regulations, 2016 provide for procedural aspects such as announcement of areas to be opened up for petroleum activities, areas for petroleum exploration licensing, bidding process for licensing rounds, renewal of petroleum production licenses, petroleum facility licenses, drilling operations, pricing of petroleum (crude oil and natural gas), revenues, and reports on petroleum resources and reserves.

The Regulations pose no legal risk to the banking sector. It is worth noting that Regulation 75 stipulates that when converting petroleum prices and deductible expenses invoiced in a foreign currency into Uganda Shillings, the Bank of Uganda's monthly average of the Banks' daily currency exchange rates for sales and purchases between

Shillings and the relevant foreign currencies for the delivery month shall be used. Four decimal places must be used in conversion calculation and the final amount shall be rounded off to the nearest whole foreign currency.

Regulation 126 of the same Regulations provides that licensees must pay acreage rentals, surface rentals or area fees calculated per square kilometre for the acreage held under a petroleum exploration license or petroleum production license on the grant of a license and thereafter annually on the anniversary of the grant until the termination of the license. Banks holding domestic accounts for some of the licensees must be aware of these payment cycles to facilitate their business relationships.

Regarding natural gas, Regulation 74 provides that the value to be attributed to natural gas shall for arm's length sales to third parties, be equal to the net realised price obtained for such natural gas at the delivery point; and for sales other than at arm's length to third parties or affiliates of the licensee, be determined by agreement between the Minister of Energy and the licensee and the price

or value shall reflect the quantity, quality and energy content of the natural gas; the price at which arm's length sales of the natural gas from other sources in Uganda, if any, are then being made; the price at which arm's length sales, if any, of natural gas imported into Uganda are being made; the purpose for which the natural gas is to be used; and the international market price of competing or alternative fuels or feedstocks.

6.1.3 The Petroleum (Exploration, Development and Production) (Health, Safety and Environment) Regulations, 2016

The Petroleum (Exploration, Development and Production) (Health, Safety and Environment) Regulations, 2016 provide for risk management, safety, handling of hazardous materials and substances, electrical installations, safety appliances, equipment materials, devices, and clothing.

The other aspects addressed by these Regulations include fire and explosion protection during petroleum activities, emergency preparedness, additional safety requirements for pipelines and tank vehicles, and communication systems.



The regulations have no material risks for the banking sector, but banks need to be aware of the health, safety and environmental considerations pertaining to the O&G sector.

6.1.4 The Petroleum (Exploration, Development and Production) (Metering) Regulations, 2016

The purpose of these Regulations is to ensure that accurate metering forms the basis of custody transfer of petroleum, the calculation of taxes, royalties, and fees due to the Government and income of the licensees.

These Regulations do not pose any legal risk to the banking sector.

6.2 Midstream Petroleum Laws

6.2.1 The Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act, 2013

The Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act, 2013 provides for a legal framework to ensure that midstream operations in Uganda are carried out in a sustainable manner that guarantees optimum benefits for all Ugandans, both the present and future generations; enabling the development of petroleum refining, gas conversion, pipelines, transmission pipelines and midstream storage facilities; facilitating investment in midstream

operations; regulating the planning, preparation, licensing, installation and maintenance of facilities for midstream operations; among other requirements.

The Act presents no legal or regulatory risk to the banking sector. The financial institutions should however appraise themselves of the opportunities relating to financing of key infrastructure such as crude oil facilities, natural gas conversion facilities, transmission pipelines, and storage facilities.



Section 53 of the Act mandates licensees, contractors, and subcontractors to give priority to citizens of Uganda and registered entities owned by Ugandans in the provision of goods and services. Licensees must within sixty days after the end of each calendar year provide PAU with a report of their achievements and their contractors and subcontractors' achievement in utilising Ugandan goods and services during that calendar year.

6.2.2 The Petroleum (Refining, Conversion, Transmission and Midstream Storage) Regulations, 2016

The Petroleum (Refining, Conversion, Transmission and Midstream Storage) Regulations, 2016 govern key aspects such as licenses to construct refineries, conversion plants or other petroleum process plants; engineering designs; pneumatic facilities,



heating facilities, inert gas facilities, power systems, hazard, and operability (HAZOP) reviews, and safety analysis function evaluation (SAFE) charts.

The Regulations do not have legal risk to the banking sector, but the banks need to take note of Regulations 57 and 58 which provide for pricing of petroleum products. The market price shall be determined at the end of each month in a currency determined by the Minister of Energy considering international oil and gas prices. The market price for each month shall be the simple arithmetic average of the prevailing per barrel selling prices in such quarter of a basket of the three most similar internationally traded crude oil listed by the American Petroleum Institute and chosen from the major crude oil producing countries in the Arabian Gulf and Africa taking into account differences in point of sale, quality, grade, total acid number, gravity or Sulphur content and any special terms and conditions relating to the sale of the petroleum products and commodities.

It is also important to note that the price shall be less than the average transport tariff per barrel for that month for the transportation of crude oil from the delivery point to the point of export. For the purposes of determining the market price, no account shall be taken of crude oil sales to affiliated companies or restricted or distress transactions or any transactions not at arm's length including government to government, barter, or discount sales.

There is a dispute resolution mechanism for disagreements arising from determination of market prices. Any disagreement concerning the determination of market price shall be

first considered in a meeting convened by the Minister of Energy composed of two technical representatives from the Government and two technical representatives of the licensee. Where the meeting cannot reach a unanimous decision within thirty days of the end of the relevant month, either party may refer the matter for determination by an expert appointed by the parties. Where the matter has been referred to an expert (which shall in no event take longer than thirty days), the market price for the preceding month shall apply and adjustments to take care of the loss or gain, if any, shall be made in the following month based on the decision of the expert.

Regulation 58 of the Regulations is to the effect that the pricing of refined products produced in Uganda shall be on import parity basis. The price of refined products shall be determined by licensees taking into consideration the international market product price; prevailing market price in Uganda; Freight Arab Gulf costs to port of reference; applicable trader premiums; insurance; import related port handling and clearance costs; and net transportation supply cost to deliver products to the target market. PAU must approve the gate price of petroleum products determined by the licensees.

6.2.3 The Petroleum (Refining, Conversion, Transmission and Midstream Storage) (Health, Safety and Environment) Regulations, 2016

These Regulations address matters concerning safety management systems, safety documents, notifications of hazardous chemicals and biological substances, emergency plans, incident and accident management, and safety signs.



These regulations do not pose any legal or regulatory risks for banks.

6.2.4 The Petroleum Waste Management Regulations, 2019

The Petroleum Waste Management Regulations apply to entities involved in the production, importation, exportation, transportation, storage, treatment or disposal of petroleum waste, and the construction and management of petroleum waste facilities.

There is no legal risk for the banks, however, lenders need to always include mandatory continuous compliance of environmental, social and governance (ESG) laws and regulations as part of their lending terms in order to comply with climate change mitigation and adaptation requirements and to align the banking industry to the ongoing global clean energy efforts.

6.3 National Local Content Laws

6.3.1 The National Oil and Gas Policy for Uganda, 2008

This policy recognises that there may be need to review the country's macro-economic policies to accommodate the challenges of dealing with oil and gas activities with the view of avoiding negative impacts on the economy like the "**Dutch Disease**" (a concept that describes an economic phenomenon where the rapid development of one sector of the economy (particularly natural resources) precipitates a decline in other sectors).

Furthermore, the policy recognizes Regulatory Best Practice (RBP) as the cornerstone for Government's institutional reform policy. RBP is based on the principle that a regulatory agency should be separate and independent from the entities being regulated, in this case oil companies. A policy-making body should be separate from the regulatory agency and the competing producers and suppliers of the goods and services. This policy endorses this model by recommending setting up

of the following three separate institutions: an oil and gas policy making and monitoring body (a Directorate of Petroleum in the Ministry responsible for oil and gas), a regulatory agency (Petroleum Authority of Uganda) and a separate commercial entity (the Uganda National Oil Company).

Clause 7.2.6.2 of the policy mandates BoU to manage and administer the Petroleum Fund, which prescribes the necessary frameworks to manage the revenues used to support the national economy and creation of a sustainable asset in form of a petroleum fund to store revenues not used in the national economy.

A policy is not a legal or regulatory instrument, therefore there is no legal risk.

6.3.2 The Petroleum (Exploration, Development and Production) (National Content) Regulations, 2016

These Regulations provide for among other things, national content monitoring, preference for goods and services available in Uganda, the national supplier database, employment and training of Ugandans, technology transfer, research, and development, and reporting by contractors and subcontractors.

There is no Material regulatory risk posed by these regulations, however, the schedule of goods and services to be provided by Ugandan companies and registered entities does not include banking services.

6.3.3 The Petroleum (Refining, Conversion, Transmission and Midstream Storage) (National Content) Regulations, 2016

The Midstream national content Regulations have the principal purpose of promoting training and employment of Ugandans, transfer of knowledge and technology and the provision of goods and services by Ugandan companies, registered



entities, and Ugandan citizens in midstream operations. The Regulations further facilitate joint ventures (JVs) for goods and services not available in Uganda to be provided by companies that have executed JVs with Ugandan companies, registered entities, or Ugandan citizens.

These regulations also pose no legal risk to the banking industry. They are supportive of banking services. In fact, Regulation 10 (3) provides that a Ugandan company shall before entering a joint venture, demonstrate to the PAU that it has the technical and financial competence to deliver the subject goods and services in a timely manner.

It is noteworthy that the Regulations are permissive of all business arrangements in Uganda, including sole proprietorships under the Business Names Registration Act, Cap. 109; the Partnerships Act, 2010; and the Companies Act, 2012 (as amended). The contractual arrangements are executed under the Contracts Act, 2010.

6.3.4 The Guidelines on Reservation Schemes to Promote Local Content, 2018

A preference scheme is an arrangement where an advantage is given to local bidders when procuring works, goods, and services in a public procurement process. A reservation scheme serves to exclude potential bidders from participating in a particular procurement by reserving the procurement for specified bidders.

The Uganda Reservation Schemes seek to augment the “Buy Uganda Build Uganda” policy, and thus do not provide legal risk to the banking sector. The Schemes support joint ventures, partnerships, associations, and consortiums, which can be effective vehicles for pooling of resources and de-risking for the banks.

6.3.5 The ‘Buy Uganda Build UGANDA’ (BUBU) Policy

Buy Uganda Build Uganda (“BUBU”) is a policy geared towards promoting use of locally manufactured goods and use of local skills/personnel. Clause 2.3.3 of the policy recognizes that the discovery of oil presents a window for local manufacturers and producers to supply the sector.

There is no legal risk. A policy is not a legal or regulatory instrument and is thus non-justiciable.

6.3.6 National Local Content Bill

The Bill was withdrawn by the mover, hence non-reviewable.

6.4 Finance Laws

6.4.1 Bank of Uganda Act, Cap. 51



The Bank of Uganda Act, Cap. 51 mandates the Central Bank to maintain monetary stability; be the banker to the Government; act as financial adviser to the Government and manager of public debt; advise the Government on monetary policy; where appropriate, act as an agent in financial matters for the Government; be the banker to financial institutions; and where appropriate, participate in the economic growth and development programmes.

There is no legal risk for the banks as the Bank of Uganda Act is a tested piece of legislation and the position of BoU as the regulator is firmly entrenched within the banking sector.



6.4.2 Financial Institutions Act, 2004 and its Regulations

The Financial Institutions Act, 2004 (as amended) consolidates the law relating to financial institutions; and provides for the regulation, control, and discipline of financial institutions by the Central Bank.

There is no material legal risk posed by the Financial Institution Act. The law actually permits transactions such as agent banking, Islamic banking, and bancassurance which are very crucial for the oil and gas industry. The general framework for financial institutions business exists, but most challenges appear to be market-driven, such as high credit risk, non-performing loan obligations, low security/asset quality, and borrower integrity challenges.

6.4.3 The Financial Institutions (Limits on Credit Concentration and Large Exposures) Regulations, 2005

The single obligor limit regulations do not provide for “specialized exposures”, yet the oil and gas industry operates with specialized assets lending, the most common being cash flow-based lending, where lenders rely on past and projected cash flows of an entity, in determining loans granted to borrowers. However, unlike conventional lending, specialized assets lending (SAL) (also known as asset-based lending), is a rather non-traditional means of financing, where loan issued to a borrower is secured by leveraging the cost of a specific asset or assets of the borrower, as opposed to the borrowing entity itself.

In more complex arrangements, the borrower may incorporate a special purpose vehicle (SPV) to hold the collateralised asset of the borrower. Risks associated with this type of lending stem from volatile market prices, dependence upon technical production assumptions to determine collateral value, and the depletion of collateral.

6.4.4 The Financial Institutions (Credit Classification and Provisioning) Regulations, 2005

The regulations provide for proper compliance with capital adequacy requirements by recognising possible impairments arising from provisions for bad and doubtful accounts. This, however, does not fully address specialized lending for the oil and gas sector, such as SPV financing and non-recourse finance, hence creating regulatory risk for oil and gas lenders.

Furthermore, the volatile nature of the underlying commodity prices makes doing business in the O&G sector challenging. O&G lending is complex and highly specialized due to factors such as global supply and demand, geopolitical uncertainty, weather-related disruptions, fluctuations and volatility in currency markets, and changes in environmental and other governmental policies. As such, companies and borrowers that are directly or indirectly tied to or reliant on the O&G industry frequently experience volatility within key operational areas of their businesses that will directly impact their financial condition and repayment capacity.

6.4.5 Public Finance Management Act, 2015 (as amended)



The Public Finance Management Act, 2015 (as amended) provides for fiscal and macroeconomic management; the Charter for Fiscal Responsibility; the Budget Framework Paper; the roles of the Minister and the Secretary to the Treasury in the budgeting process; establishment of the Petroleum Fund and the collection and deposit of revenues into and the withdrawal of revenue from the Petroleum Fund and for the management of the Petroleum Revenue Investment Reserve (PRIR); the role of Bank of Uganda in the operational management of the Petroleum Revenue Investment Reserve; and the establishment of the Investment Advisory Committee.



The Act also provides for the financial reports, annual reports and annual plans of the Petroleum Fund and the Petroleum Revenue Investment Reserve, and the sharing of royalties. The 2021 amendment to the Act permits UNOC to retain a portion of the proceeds from the sale of petroleum arising from State participation to meet its financial obligations arising from petroleum agreements and Joint Operating Agreements (JOAs).

However, the Act does not expressly provide for banks/private sector participation in the PRIR. The Petroleum Fund is established by section 57 of the Act, which provides for the collection and deposit of petroleum revenues into the petroleum fund. The fund is created using the petroleum receipts. Withdrawals from the Petroleum Fund are only made under authority granted by an Appropriation Act and a warrant of the Auditor General to the Consolidated Fund, to support the annual budget; and to the Petroleum Revenue Investment Reserve (PRIR), for investments to be undertaken in accordance with section 63 of the Public Finance Management Act, 2015 (as amended), which is to the effect that the money of the PRIR shall be invested in accordance with the petroleum revenue investment policy issued by the Minister of Finance in consultation with the Secretary to the Treasury and on the advice of the Investment Advisory Committee.

The report of the auditor general on the financial statements of Uganda Petroleum Fund for the financial year ended 30th June 2022 noted the following challenges.

- **Delayed remittance of petroleum revenues to the petroleum fund.**
- **Lack of appropriation to the Petroleum Revenue Investment Reserve.**
- **Inadequate funding of the Investment Advisory Committee (IAC).**

6.4.6 The Public Procurement and Disposal of Public Assets Act, 2003 (as amended)

The Public Procurement and Disposal of Public Assets Authority (PPDA) Act establishes the Public Procurement and Disposal of Public Assets Authority (PPDA), formulates policies, and regulates practices in respect of public procurement and disposal activities and other connected matters.

There is operational risk in terms of delays in resolution of procurement disputes. However, the Public Procurement and Disposal of Public Assets Appeals Tribunal has been set up with the core function of hearing applications for review of decisions of the Accounting Officers made to it by aggrieved bidders, or persons whose rights are adversely affected by the decision of the accounting officers. The major challenge is project delays. According to studies and audits by the Public Procurement and Disposal of Public Assets Authority, (PPDA), for instance, the findings for the FY 2020/21 reveal that only 60% of contracts by value were completed within the contractual timelines. Causes for delays include securing the project site and compensating persons whose property has been affected by the project or who may require resettling, and relocation of utilities, (National Water and Sewerage Corporation sewer lines, fibre optic cables, CCTV camera infrastructure and power lines). Such delays cause additional costs and create litigation risk.

UBA should therefore constantly engage and advocate with the various stakeholders to improve the business environment and streamline project planning, especially where member financial institutions are participating in strategic sectors such as Oil and Gas.

6.4.7 The National Audit Act, 2008

The National Audit Act, 2008 establishes the office of the Auditor General; provides for the



appointment, tenure, and removal of the Auditor General; provides for the auditing of accounts of central Government, local government councils, administrative units; public organisations, private organisations, and bodies; and empowers the Auditor General right of access to documents and information relevant to the performance of his or her functions.

There is no legal risk for banks as the Auditor General follows the Generally Accepted Accounting Principles (GAAP), the International Standards of Supreme Audit Institutions (ISSAIs) and the International Ethics Standards Board of Accountants (IESBA) in undertaking the mandate to audit the Petroleum Fund.

6.4.8 Public Private Partnership Act, 2015 (as amended)

The Public Private Partnership Act, 2015 (as amended) provides for public private partnership agreements; establishes a Public Private Partnership Committee and a Public Private Partnership Unit; establishes a Project Development Facilitation Fund; provides for the functions of contracting authorities; accounting officers; project officers; project teams and evaluation committees; provides for the role of private parties in public private partnerships; and management of public private partnership.

The Act further provides for project inception and feasibility studies for public private partnerships; provides for the procurement of public private partnerships; to provide for the disqualification of bidders and the evaluation of public private partnership bids; regulates public private partnership agreements and the monitoring of projects; and provides for the bidding methods. It also stipulates procurement procedures and types

of public private partnership agreements and for related matters.

There is no material legal risk for banks. Most challenges related to delays and poor project implementation.

6.4.9 Public Private Partnership Regulations, 2019

The Public Private Partnership Regulations, 2019 establish the procedures for private party procurement, open bidding, restricted bidding, direct procurement, negotiations, and award of PPP contracts.

There is no legal risk for the banking sector as the framework supports project finance.

6.4.10 Public Private Partnerships (PPP) Framework Policy, 2010

The PPP Framework policy laid ground for the enactment of the PPP Act and Regulations.

There is no legal risk for banks as a policy is neither a legal nor regulatory instrument and is thus not justiciable.

6.4.11 Income Tax Act, 1997 (as amended)

Uganda's upstream petroleum income tax regime has been amended seven (7) times since 1997 when the Income Tax Act (ITA) was enacted. Most notably, in terms of tax Accounting Principles, licensees must account on an accrual basis for all transactions at arms-length prices. The licensees are required to disclose all non-arms-length transactions in return for a specified period if required to do so by the Commissioner.



For taxation purposes, licensees must:

- Maintain accounts for a contract area in both UGX and USD, and in the case of any conflict, the accounts maintained in USD shall prevail.
- Use the exchange rates prescribed for conversion of currencies and GoU or a prescribed licensee shall not experience an exchange gain or loss at the expense of and/or to the benefit of the other; and any gain or loss resulting from the exchange of currency will be credited or charged to the accounts.
- Use the exchange rates prescribed for conversion of currencies and the amounts received, costs and expenditures incurred in UGX, USD or any other currency shall be converted into UGX or USD on the basis of the average of the buying and selling exchange rates between the currencies in question as published by BoU, prevailing on the last business day of the calendar month preceding the calendar month in which the amounts are received, costs and expenditures are paid.
- In the event of a one time or accumulative increase or decrease of 10% or more in the exchange rates between the UGX, USD or the currency in question during any given calendar month, use: for the period from the first of the calendar month to the day when the increase or decrease is first reached, the average of the official buying and selling exchange rates between USD, UGX or any other currency as issued on the last day of the previous calendar month, or for the period from the day on which the increase or decrease is first reached to the end of the calendar month, the average of the official buying and selling exchange rates between the USD, UGX or any other currency as issued on the last day on which the increase or decrease is reached.
- Maintain a record of the exchange rates used in converting UGX, USD, or any other currency.

Uganda enacted the Income Tax (Amendment) Act, 2021 and introduced the aspect of Windfall Tax. A windfall tax is a tax levied by governments against certain industries when economic conditions allow those industries to experience significantly above-average profits. Windfall taxes are primarily levied on companies in the targeted industry that have benefited the most from the economic windfall, most often commodity-based businesses.





The legal risk is that tax statutes are amended annually, hence new changes are introduced every Financial Year, which affects predictability and certainty.

It is also worth noting that any term that is not defined in the Income Tax Act has the same meaning assigned to it in the Petroleum (Exploration, Development and Production) Act, 2013.

6.4.12 Value Added Tax Act, Cap. 349

In order to incentivize the Oil and Gas sector, the Value Added Tax (VAT) deeming position was introduced in Uganda effective July 2015. Under Section 24(5) of the Act, value added tax charged by the contractor to the licensee is deemed paid and therefore the contractor is not required to pay this VAT to URA.

As stated in respect of income tax above, the legal risk is that tax statutes are amended annually, hence new changes are introduced every Financial Year, which affects predictability and certainty.



6.5 Other Laws

6.5.1 Petroleum Revenue Management Policy, 2012

The Petroleum Revenue Management Policy provided the policy tool for establishment of the Petroleum Fund and hence poses no legal and regulatory risk to the banking sector. Petroleum Fund aspects were distilled into Public Finance Management Act, 2015.

6.5.2 Environmental laws, regulations, and guidelines

The major environmental laws and regulations reviewed are the National Climate Change Act, 2021; National Environment Act, 2019; the Petroleum (Waste Management) Regulations, 2019; the National Environment (Environmental and Social Assessment) Regulations, 2020; and the National Environment (Oil Spill Prevention, Preparedness and Response) Regulations, 2020. These majorly establish requirements for environmental and social impact assessments, climate action plans, control of pollution, air quality standards, and oil spill preparedness and response systems. The leading agency is the National Environment Management Authority (NEMA).

There is no material legal risk for banks, however, lenders are advised to ensure that borrowers undertake to continuously adhere to environmental compliance practices.



6.6 Other relevant Laws and regulations



6.6.1 The Petroleum Supply Act, 2003

The Petroleum Supply Act governs downstream activities such as importation, retail, distribution, storage, supply, and marketing of petroleum products.

There is no legal risk for financial institution.



6.6.2 The East African Crude Oil Pipeline (EACOP) (Special Provisions) Act, 2021

The EACOP law is meant to facilitate the implementation of the East African Crude Oil Pipeline Project in Uganda; to implement the obligations of Uganda under the Intergovernmental Agreement and the Host Government Agreement and for related matters.

EACOP exemptions include; Supplies to the EACOP Project are never to incur excise duties (these are not to be a cost to the project); no customs and import duties to be imposed on machinery, other inputs and temporary importation of motor vehicles for the direct use for the EACOP Project; No customs and import duties, African Union Levy or EAC infrastructure levy to be imposed on capital goods for direct and exclusive use for the EACOP Project; no duty, processing fee, security or bond to be provided or paid for temporary imports by the EACOP Project; and no security to be provided for the import or sale for export of petroleum.

There is no legal risk to Ugandan banks, and some members are already participating with mostly trade finance products such as bank guarantees, invoice discounting, and letters of credit. The initial risks related to the delayed final investment decision (FID), which was non-legal risk, but impacted the sector players adversely.



6.6.3 The Contracts Act, 2010

This governs contractual arrangements such as Joint Venture Agreements (JVAs), Joint Operating Agreements (JOAs), Partnership Agreements, Research and Development Agreements, Skills, and Technology Transfer Agreements, et cetera.

The major legal risk is litigation risk and how the courts and arbitration tribunals will interpret these agreements/contracts. There are also some significant delays in the Court system. Interventions such as Alternative Dispute Resolution might yield faster outcomes. UBA is already engaging with the Judiciary and Uganda Law Society on that front.



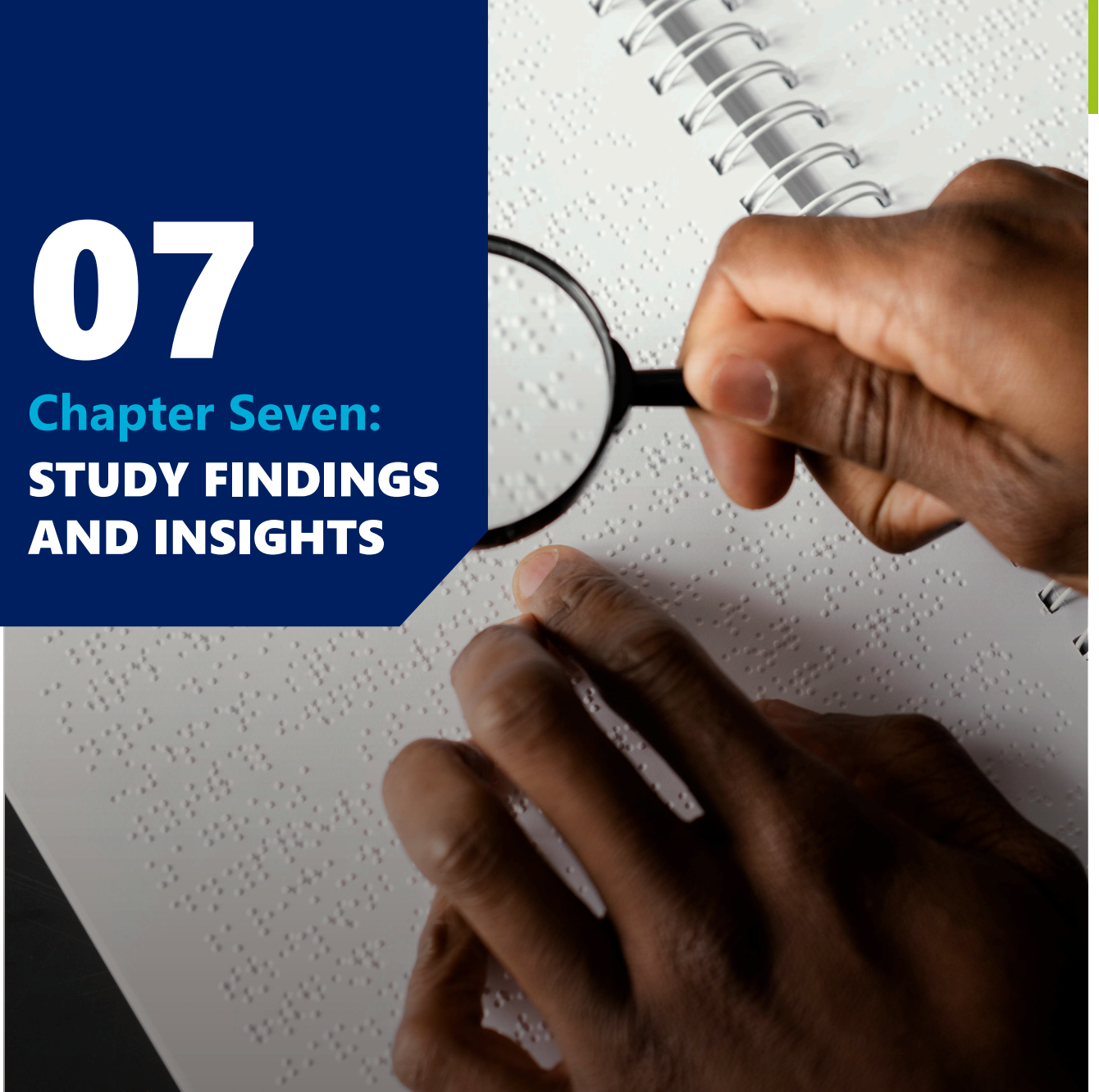
6.6.4 The Companies Act, 2012 (as amended)

The Companies Act regulates the creation of oil and gas Special Purpose Vehicles (SPVs), corporate governance aspects such as passing of resolutions, borrowing powers, et cetera.

There is no material legal risk for lenders as the general obligations are not materially different from other requirements of corporate lending. Lenders must take note of the beneficial ownership rules from both corporate and Financial Intelligence Authority (FIA) perspective.

07

Chapter Seven: STUDY FINDINGS AND INSIGHTS



In this pivotal chapter of the report, we delve into the core findings and insights gathered during our research on the readiness of the banking sector to support the critical O&G sector. In this chapter, we uncover the nuances, challenges and opportunities

that underpin the relationship between the banking sector and key stakeholders in the O&G value chain. For the O&G sector to thrive, it relies on the financial support, services, and expertise from the banking sector, through financing projects and contracts, managing risk and

facilitating international trade. This chapter thus presents the key findings from the study after engagements with diverse stakeholders including industry experts, regulators, financial services providers, policy makers, contractors, executives, and various players in the O&G sector.



A) FINDINGS FROM SFIs AND BOU

7.1 Existence of Specialised Oil and Gas Units/teams

The majority of the SFIs (69%) do not have units or segments specifically established to service the oil and gas sector, neither do they have staff dedicated specifically to the sector.

From the engagements, the SFI respondents advised the following reasons to explain why they do not maintain specialised teams, units or segments tailored exclusively to the oil and gas sector:

- **Strategic focus** - The prevailing strategy of the respective SFIs primarily centre on areas such as agriculture, manufacturing, household, and salary-based loans, among others. Consequently, the allocation of resources and attention is oriented towards these sectors.
- **Customer Size and Lending Opportunities** - The oil and gas sector, especially upstream, often entails significantly larger customers and lending opportunities. Given the size and capacity constraints of some SFIs, they sometimes perceive these opportunities as too extensive to effectively engage in.
- **Existing Structural Adaptability** - Most SFIs contended that their current SFI organizational structures are sufficiently adaptable to accommodate oil and gas sector activities. Therefore, there may not be a compelling need to establish a dedicated unit.
- **Capital and Lending Capacity Limitations** - Limited capital allocation and lending capacity were cited as critical factors influencing SFIs' reticence to engage extensively with the oil and gas sector.
- **Historical Reasons** - In certain instances, dedicated units or teams catering to the oil and gas sector were disbanded when activities in the sector stalled due to challenges during the exploration phase after which the Covid-19 outbreak also led to a lull in activities. All this time, SFIs had financed some companies engaged in the sector but the companies were not paying because business had stalled. This led to some SFIs abandoning the oil and gas sector and even disbanding the existing units and teams.

It is thus imperative for the industry stakeholders and decision-makers to appreciate the justification for the units when assessing the banking and financial sector's engagement with the O&G Sector.



7.2 Role of the Financial Institutions in the Oil and Gas Sector

In the context of an industry-wide sector report, it is noteworthy that the consensus among all respondents, representing 100% agreement, underscores the pivotal role of the banking sector within the oil and gas sector value chain. This role primarily revolves around the provision of diverse credit and financial products and also extends to other roles as in the figure below.

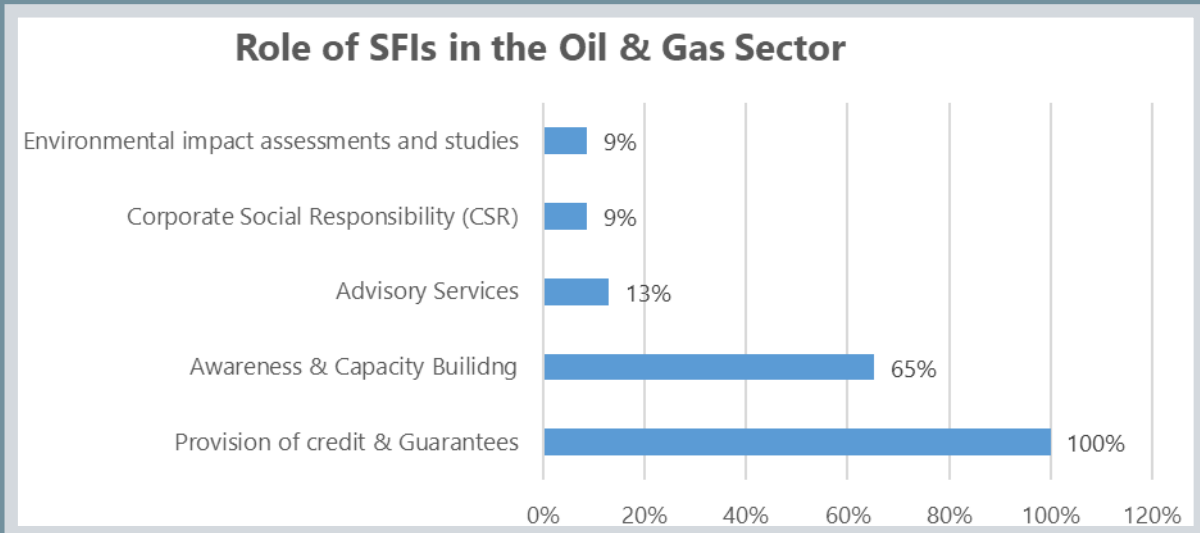


Figure 8: Role of the SFIs in the Oil & Gas Sector

Despite the fact that credit provision is the SFI pivotal role, none of the SFIs has a specific product for O&G, except for one SFI that has a product supporting women in O&G rural areas.

Further to provision of credit, the banking sector provides a diverse number of products, services and channels including risk management, foreign exchange, derivatives and hedging, trade products, vehicle and asset financing, treasury, and cash management, ESG aligned products and services, and a wide spectrum of digital and other channels.

7.3 Role of SFIs in Supplier Development

Financial institutions have actively engaged in supplier development programs facilitated by oil companies, the Petroleum Authority of Uganda (PAU), and workshops organized by various entities, including the Uganda Chamber of Mines and Petroleum (UCMP). It is important to note that, despite these efforts, most financial institutions, constituting 63%, have not initiated their own dedicated supplier development programs. Nevertheless, 37% of these institutions have implemented a range of programs aimed at supporting the overall development of Small and Medium Enterprises (SMEs), including those involved in the oil and gas sector.



Notably, all surveyed SFIs unanimously recommend their involvement in various facets, including training, raising awareness, and enhancing the skills and proficiency of local companies' staff and management. Additionally, SFIs can provide advisory services and the required products, channels, and services. These and other roles are presented in the figure below.

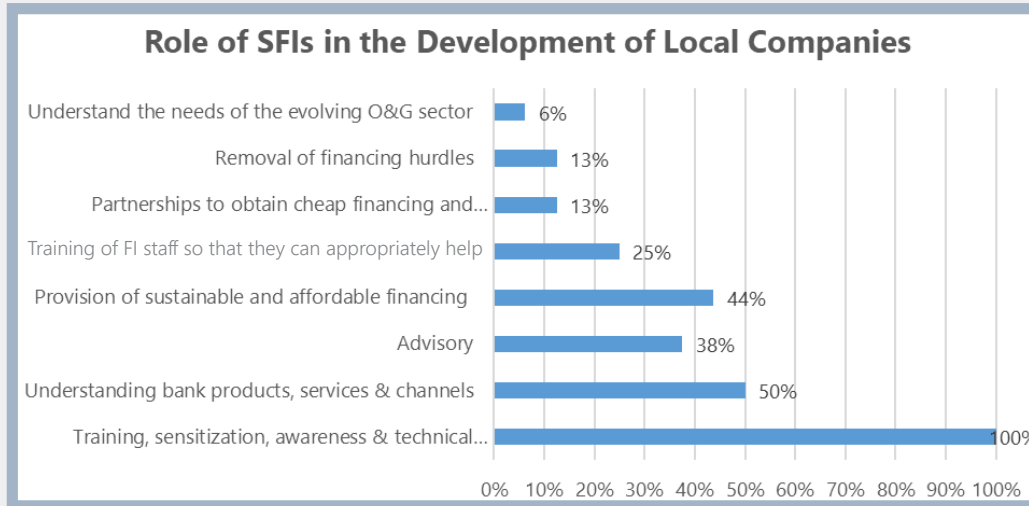


Figure 9: Role of SFIs in the Development of Local Content

7.4 Participation of SFIs in O&G Lending

From the stakeholder engagements, the level of participation by FIs in the oil and gas sector can be classified into four categories which are high participation, medium participation, low participation, and no participation as presented in Figure 10 below. The sub sector focus, rationale for the focus and challenges that limit the SFIs who reported low and/or no participation in O&G lending are also discussed in the subsequent sections.

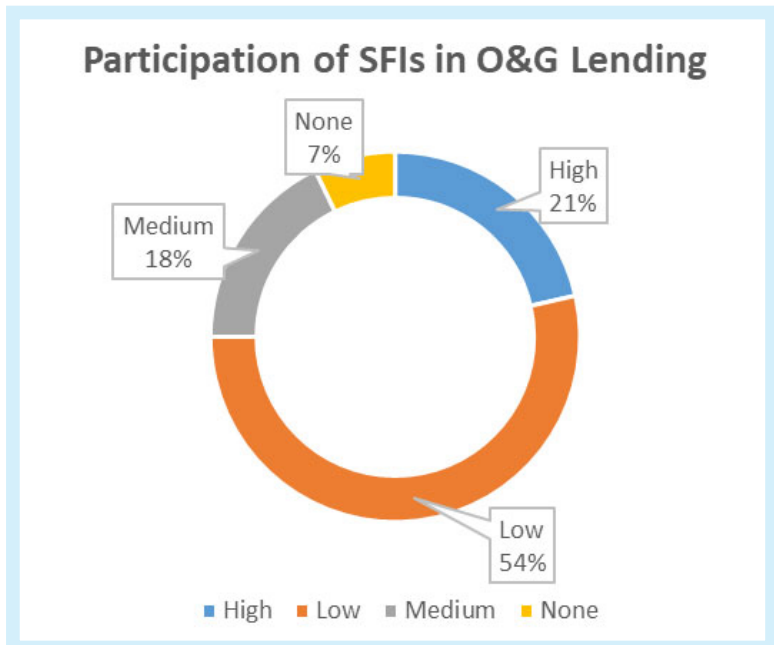


Figure 10: Participation of SFIs in O&G Lending



7.4.1 O&G Value Chain Focus Sub-Sectors and the Rationale behind them.

When it comes to offering loan products and associated services, the SFIs that participated in this study demonstrated distinct sub-sectoral priorities. A significant 56% of the respondents indicated that they do not maintain a specific sub-sectoral focus but rather adopt a reactive approach. In essence, they cater to customer requests and align their services accordingly. The figure below also shows the other sub-sectors which the respondents are focused on in the oil and gas value chain.

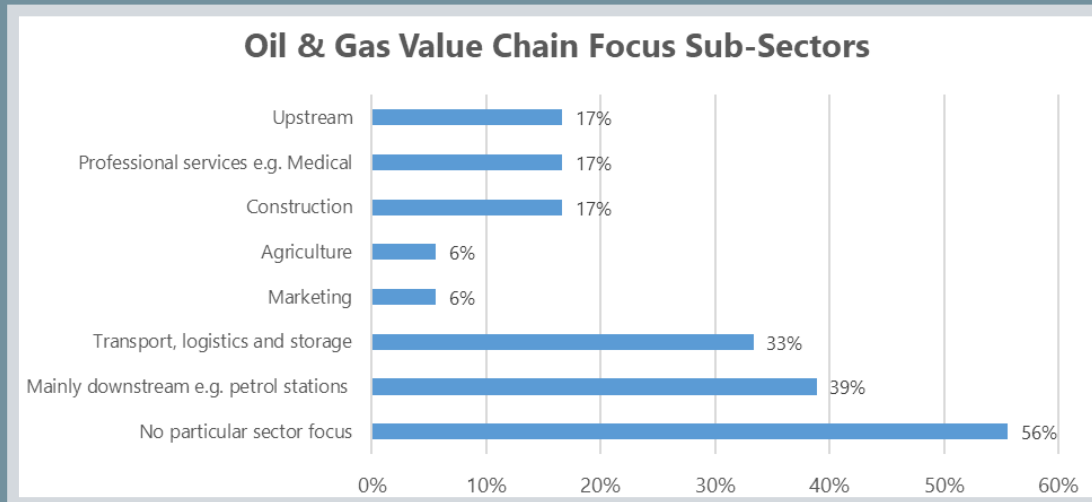


Figure 11: Oil & Gas Sector Value Chain Focus Sub-Sectors

The rationale behind the targeted sub-sector-focused lending includes the following:

- Familiarity with the chosen sub-sector:** FIs opt for focused sub-sector lending because they possess a deeper understanding and familiarity with the selected sub-sector. This enables them to better assess risks and opportunities.
- Availability of Opportunities:** FIs often concentrate their lending efforts in specific sub-sectors due to the abundance of opportunities therein. This strategic choice aligns with their goals for maximizing returns on investments.
- Capital Availability:** The availability of capital plays a pivotal role in determining sub-sector-focused lending. FIs may allocate resources more extensively to clients in sub-sectors where they can effectively meet their financial needs.
- Foreign Exchange Constraints:** Constraints related to foreign exchange can influence FIs to focus their lending activities within specific sub-sectors. These constraints may limit their ability to engage in cross-border transactions, making sub-sector-focused lending a more viable option. Further, due to the licenses held, Microfinance Deposit-Taking Institutions (MDIs) are not permitted to deal in and lend in foreign currency. Thus, any sectors that would require foreign exchange loans are not prioritised.



These reasons shed light on the strategic thinking and considerations that guide FIs in their decision to concentrate lending efforts on particular sub-sectors. Such focus allows them to leverage their strengths and resources to better serve their target market.

7.5 Preferred Currency of Lending into the Oil and Gas Sector

The lending preferences within the banking sector reveal that most SFIs adopt a pragmatic approach to lending, aligning their decisions with the cashflows emanating from contractual agreements. Some FIs prefer extending credit to the oil and gas sector in Ugandan Shillings. Notably, Microfinance Deposit Institutions (MDIs) primarily operate within the Ugandan Shilling (UGX) currency, limiting their lending capacity to this currency. Some FIs favour lending in United States Dollars (USD). This diversity in lending strategies underscores the adaptability and strategic thinking of financial institutions in meeting the unique demands of the oil and gas industry.

7.6 Capacity of Financial Institutions to lend to the Oil & Gas Sector

7.6.1 Capital Adequacy

The current single obligor limit as per BOU requirement is 25% of the SFI's core capital, which is approximately ten million USD for tier one commercial banks. This was after it was increased from USD 4 million. The increase in the single obligor limit enables SFIs to lend more to the oil and gas sector, easing the previous capital constraints and facilitating increased financing opportunities for the sector. However, this may fall short of some funding needs of the oil and gas sector, which typically amounts to billions of USD per project.

The need for large capital notwithstanding, the O&G sector still offers many opportunities for FIs at different levels to participate. Currently, FIs might not directly participate in the main upstream projects like exploration, but they can provide financing to support services like catering, infrastructure, construction, healthcare, transportation, and logistics, among others, especially those activities gazetted for local players. Furthermore, they can participate in syndication to arrange for larger scale financing needs in conjunction with international financial providers.

7.6.2 Capacity and Readiness to lend to the O&G Sector

Within the surveyed FIs, it was noteworthy that:

- 48% of respondents asserted that they currently possess the financial capacity necessary to address the financial demands of the oil and gas sector, especially downstream activities.
- 52% of respondents believe they have the potential to bolster their financial and non-financial capacity, leveraging the resources and support available through their respective groups or parent companies.
- However, there is a notable concern, with only 47% of SFIs indicating that they possess the requisite skills and technical expertise to effectively cater to the evolving needs of oil and gas companies. This signifies a critical gap in the sector's capabilities that needs to be bridged.
- Furthermore, 21% of the Financial Institutions acknowledged that their capacity to meet the upstream requirements is mainly constrained by capital limitations.



These insights highlight the varying degrees of readiness and capacity within the banking sector regarding its ability to meet the multifaceted demands of the oil and gas industry. Addressing skill gaps and capital limitations will be essential for ensuring the banking sector’s effective engagement with the O&G Sector.

7.7 Benefits for the Banking Sector in Supporting the Oil and Gas Sector

Despite the encountered challenges, present and anticipated risks, it is essential to recognize that the oil and gas sector presents significant potential benefits for the banking sector. The primary benefit, unanimously acknowledged by all respondents, is the potential for increased revenues. This potential uptick in revenue can subsequently lead to higher liabilities, foster stronger customer relationships, and ultimately contribute to enhanced profitability. In addition to these advantages, other notable benefits are also shown in the figure below.

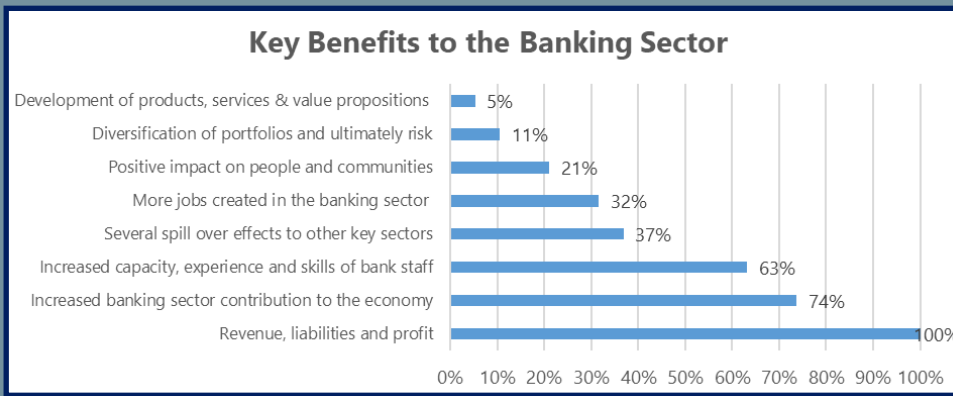


Figure 12: Key Benefits to the Banking Sector

7.8 Risks faced by SFIs

From the survey, it is noteworthy that all respondents unanimously identified credit risk as the foremost risk faced by Financial Institutions (FIs). Key aspects of credit risk include the risk of defaults, the potential for fund diversion, insufficient collateral, challenges in executing collateral disposal, and the prospect of delayed payments, all of which can ultimately lead to delinquency. These multifaceted dimensions of credit risk, as well as the potential to result into substantial losses given the substantial sums involved, underscore its prominence as a critical concern within the financial sector. Additional risks as articulated by the respondents are shown in the figure below.



Figure 13: Risks the FIs working with the oil & gas sector are exposed to.



In solutioning, it is important for the financial institutions and all the stakeholders in the O&G value chain to consider various ways of mitigating these risks rather than focus on the risk and its potential challenges, including the potential for loss.

7.9 Risk Appetite Strategy and Supportive Policies

Financial institutions demonstrate varying risk appetite levels when lending to different sectors which are determined by factors such as funding sources, governance structures, internal policies, growth strategy, historical performance, among others. Depending on their appetite for a specific sector, a well-defined strategy is essential to determine the mode and extent of engagement. This strategy should be backed by a comprehensive

policy that provides clear guidelines on permissible and restricted actions to ensure effective implementation.

While all financial institutions have lending policies in place, the unique complexities of the oil and gas sector necessitate establishing a dedicated policy specifically tailored to this sector. Such a stand-alone policy for oil and gas would not only guide the strategy but also support the risk-appetite for this sector by individual FIs.

However, 58% of the respondents noted that they do not currently possess dedicated strategies or policies that specifically target the oil and gas sector. In contrast, the 42% SFIs that have established strategies for the O&G sector diligently engage in periodic reviews of these strategies, as detailed in the figure below.

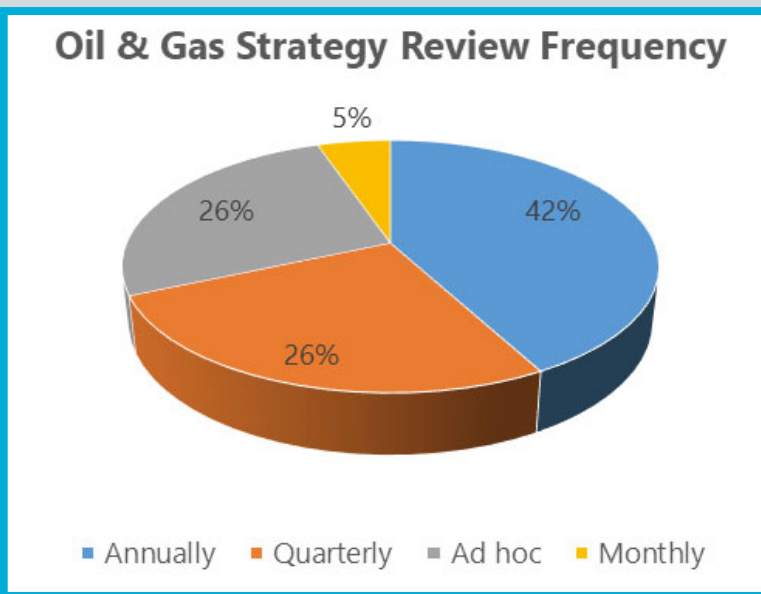


Figure 14: Frequency of Review of the Oil & Gas Strategies by SFIs

The absence of definitive guidance has significantly impeded the extent of financial institutions' participation in O&G activities, prompting a cautious approach to risk where institutions opt for prudence rather than calculated risk-taking within the oil and gas sector. Therefore, SFIs engaged in lending to the oil and gas sector should establish a dedicated lending policy explicitly outlining acceptable categories of E&P loans, the distribution of loan portfolios (credit concentrations), targeted lending markets or regions, risk thresholds quantified as a portion of capital, and the correlation risk vis-à-vis other sectors within the FI's loan portfolio (Office of the Comptroller of the Currency, 2018).




7.10 Challenges faced by SFIs dealing with the Oil and Gas Sector

The primary challenge that most (81%) of the Financial Institutions (FIs) have pinpointed is the inadequate comprehension, both within their staff and throughout the broader value chain of stakeholders, regarding the intricacies of the oil and gas sector. This also encompasses the vital task of accurately gauging the scale of O&G opportunities, a critical prerequisite for devising well-suited solutions for the diverse array of industry participants. Additional challenges are also presented in the table below:

Table 9: Challenges faced by the FIs when dealing with the Oil and Gas Sector

Icon	Challenge	Response Rate
	Limited understanding of the O&G sector by the FIs and players in the Oil and Gas ecosystem	81%
	Capital limitations especially to support upstream and midstream business	52%
	Little or no collateral and low resale value of certain specialized equipment which also makes guarantee coverage hard	33%
	Lack of experience and expertise by contractors and customers to properly execute contracts in the O&G sector	29%
	Clients have business and other skill gaps e.g., finance matters, book and recordkeeping, marketing, etc.	29%
	Hard to assess and model risks well e.g., credit and financial	24%
	Uncertainties in O&G which are influenced by several factors including price and currency fluctuations	24%



	Others:	Response Rate
	▪ Insufficient FX deposits for lending	19%
	▪ Many bad experiences during the exploration phase	14%
	▪ Oil companies agreed to domiciliation in writing and thus cannot move money to other banks.	14%
	▪ Limited direct access to oil companies, and tier 1 and tier 2 sub-contractors who are critical players.	14%
	▪ Inadequate insurance cover yet risks are high - Most insurance companies are cautious.	10%
	▪ Diversion of project funds	10%
	▪ Poorly negotiated contracts which are not bankable	10%
	▪ Delayed payments	10%
	▪ Poor credit history by the local content players in the industry, making it challenging to lend to them.	5%
	▪ Lack of funding for key support activities e.g., customer awareness, capacity building, etc	5%
	▪ O&G project progress is still slow, and targets might not be achieved.	5%
	▪ Competition with international providers with more experience in the sector	5%
	▪ Limited financial products specifically speaking to the oil and gas sector	5%

7.11 Partnerships to enable SFIs better support the Oil & Gas sector

To further bolster the capacity of FIs in providing comprehensive support to the oil and gas sector, it is imperative to foster partnerships. Some partnerships and suggestions of partnerships to foster as advised by the SFIs include the following.

- Government Ministries, Departments and Agencies (MDAs)** including Ministry of Energy and Mineral Development (MEMD), Ministry of Finance, Planning and Economic Development (MoFPED), Petroleum Authority of Uganda (PAU), Uganda National Oil Company (UNOC), local governments, among others. Collaboration with these governmental bodies is vital for regulatory alignment and effective sector coordination and support.
- Oil exploration companies and tier 1 and tier 2 contractors** constitute key partners to engage with to facilitate a seamless and mutually beneficial working relationship within the O&G sector as well as contract monitoring and loans repayment.
- Providers of guarantees and risk sharing frameworks** play a pivotal role in sharing and mitigating risks associated with oil and gas operations. Partnering with such entities can enhance risk management efforts.
- Development partners** offer valuable support for the development of local content and provide critical technical expertise essential for the O&G sector's success. Collaborations with these partners are essential for capacity building and knowledge transfer.



5. **Agricultural agencies** that work closely with farmer groups can be strategic partners, particularly in regions with oil and gas activities. These collaborations can facilitate economic diversification and sustainable development.
6. **Umbrella associations** such as the Uganda Chamber of Mines and Petroleum (UCMP), Uganda Insurers Association (UIA), Uganda Manufacturers Association (UMA), among others provide a platform for networking and collective advocacy. Partnering with such associations can amplify the voice of FIs within the sector.
7. **Partnerships within the banking sector that will support syndication.** While there are currently no specific laws and regulations governing syndication, the existing legal framework does provide a foundation for syndication activities. Establishing trust-based partnerships and collaborations within the banking sector is of paramount importance to enable effective syndication. Syndication offers SFIs the opportunity to divide and share risks.

To facilitate syndication, SFIs should maintain rigorous credit underwriting standards. In practice, SFIs often establish security trustees and escrow accounts; however, they may not fully utilize these mechanisms due to a lack of trust. Building trust in these instruments is essential for the successful implementation of syndication arrangements.

B) FINDINGS FROM NON-SFI O&G STAKEHOLDERS

7.12 Usage of Banking Services by Contractors and IOCs

7.12.1 Bank Services Usage

Approximately 54% of the survey respondents did not rely on borrowing from the banking sector to support their operations within the oil and gas sector. The borrowing decision primarily stemmed from their ability to access alternative forms of financing, both formal and informal. The IOCs interviewed sourced their financing internationally because it was significantly more affordable and was convenient given the high-risk nature of their ventures.

The figure below illustrates the utilization of credit facilities in the banking sector.

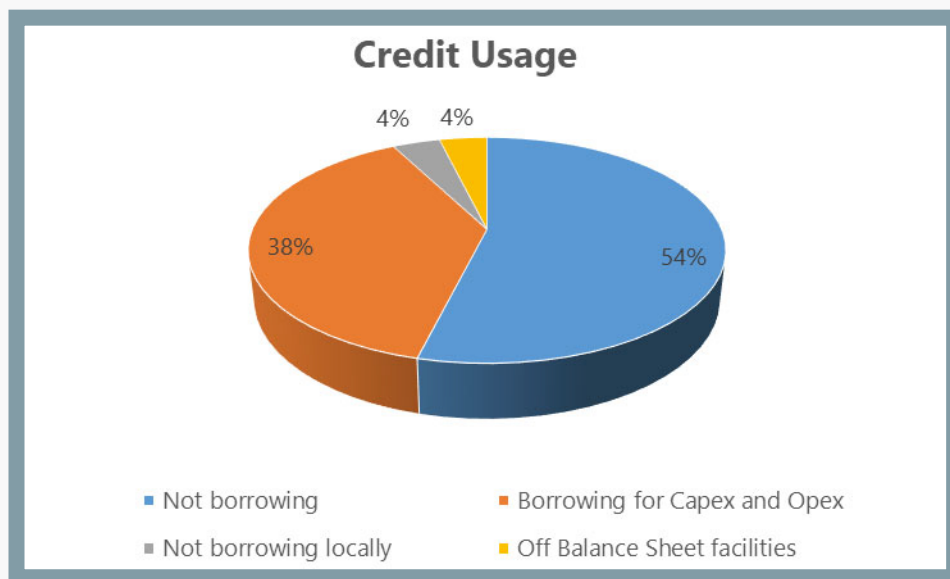
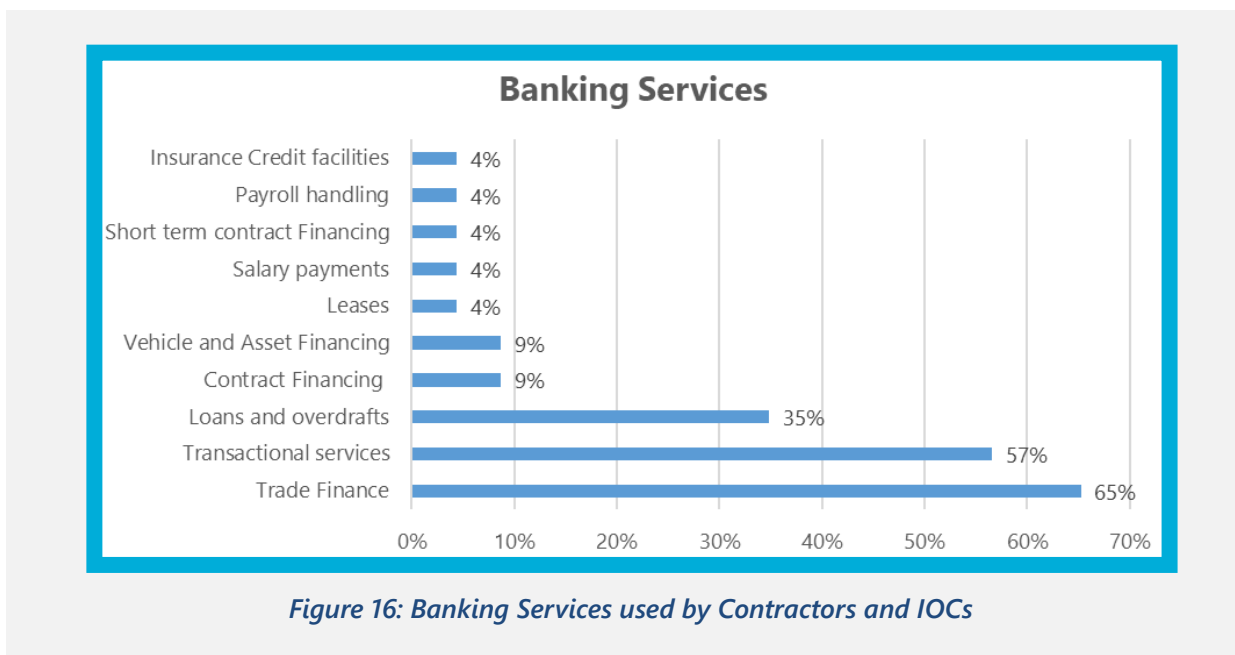


Figure 15: Credit Utilization.



Most respondents, constituting 65%, use banking services through the utilization of trade finance products. These products encompass a range of instruments, including letters of credit, bank guarantees, bid bonds, and invoice discounting. Their primary function is to facilitate international trade by mitigating payment and performance risks, furnishing working capital, and empowering businesses to confidently participate in cross-border transactions.

The selection of a particular instrument is contingent upon the specific requirements and circumstances of the customers at the time of accessing these services. It underscores the flexibility and adaptability of trade finance products in addressing diverse customer needs within the context of international trade. Below is the figure also showing the other bank products as used by the various players in the oil and gas sector.



7.12.2 Positive Experiences of Dealing with Financial Institutions (FIs)

The contractors and other stakeholders in the oil and gas value chain who were interviewed highlighted the following aspects that have been a success in their relationships with their respective Financial Institutions.










- Digital banking and internet banking are working well most of the time.
- Improved payment systems with better turnaround times (TAT).
- Good TAT in some requests e.g., credit renewals and card replacements
- Relationship managers are always available and provide guidance when asked.
- Vehicle and Asset finance product line which has helped the purchase of equipment and vehicles.
- Contract financing.
- Training and upskilling as offered on various programs by the FIs at no cost at all.






7.12.3 Challenges Contractors and Local Companies Face when dealing with SFIs.

The respondents who have requested for bank services before, primarily credit, raised various challenges that they face when dealing with FIs. Whilst 21% of the respondents advised poor turnaround times as the biggest challenge, 5% advised that they had experienced no challenge at all. Additional challenges are also discussed below.

Table 10: Challenges Contractors and Local Companies face when dealing with SFIs.

Icon	Challenge	Percentage Response
	Poor Turn Around Time	84%
	Inconsistent and too many requirements, especially historical requirements yet most of the contractors are start-ups	68%
	High interest rates and penalties	58%
	Risk averseness by banks with a low appetite for the oil and gas sector and its financing requirements	42%
	High collateral requirements including cash collateral to secure guarantees which many of the players in the O&G sector are not able to meet	42%
	No challenges experienced at all.	21%
	Less funding offered by the financial institutions compared to the requests presented	16%
	Poor and inconsistent communication	16%
	FIs not understanding how the O&G sector works, so are not providing the correct solutions to the needs advised	11%



	Large capital requirements that make banks hesitant to lend such large amounts	11%
	The contractor needed a guarantee from a Triple A rated bank which was very hard to get locally	5%
	Some digital platforms are intermittent and not robust enough for the customer needs	5%

Contractors also expressed that they turned to money lenders, not because these lenders possessed oil and gas expertise, but because SFI staff, lacking the necessary expertise, relied on cumbersome bureaucratic processes, leading to delayed decision making on loan approvals.

7.13 Non-Financial Challenges in the O&G Sector

7.13.1 Non-Financial Challenges Faced by Stakeholders in the Oil and Gas Sector

Despite the IOCs advising that they pay invoices appropriately tendered within 30 to 45 days, numerous stakeholders (52%) within the oil and gas sector encounter a spectrum of challenges that impede their capacity to execute contracts efficiently or provide goods and services optimally. Foremost among these challenges is the issue of delayed payments, a prevalent concern that adversely affects cash flows. This delay in payments presents significant hurdles in meeting financial obligations to financial institutions, as well as other stakeholders such as the Uganda Revenue Authority (URA), suppliers, service providers, and employees. All these lead to delayed contract execution.

Additionally, various other challenges have been identified, as below.

- (a) **Regulatory compliance.** The oil and gas sector is subject to a myriad of regulations, both domestic and international. Compliance with these regulations especially the Health Safety and Environmental (HSE) standards can be intricate, demanding and very costly. Failure to adhere to regulatory requirements may result in fines, legal complications, and reputational damage.
- (b) **Local Content Requirements and Compliance.** Many countries including Uganda require oil and gas companies to meet local content requirements, which may involve using local suppliers and labour. Compliance with these requirements can be complex especially when there is limited or no capacity in various sub-sectors. This may impact project costs and timelines. On the other hand, the local companies feel disenfranchised when the services that have been ringfenced for said companies are undertaken by foreign companies, with no benefit to them.



- (c) **Staff Competence.** The level of competence of staff especially in technical areas is very low with limited training and upskilling to enable them to get up to speed. This is further complicated by insufficient and intermittent workforce where heavy deployment is required. The inexperience in the O&G sector could lead to unforeseen risks that require heavy compensation for all players, sub-optimal contract execution, and repetitions, all of which lead to delays and adverse financial implications.
- (d) **High Tax Regime.** Elevated tax burdens, without corresponding rebates for domestic enterprises, present a considerable challenge. This includes the requirement to remit taxes upon invoice issuance and ahead of actual payment receipt, creating impediments to cash flow management. Furthermore, an inequity exists in Value-Added Tax (VAT) exemptions, favouring international companies, which are exempt from VAT invoicing when invoiced by local firms.
- (e) **Low uptake of insurance cover and brokerage services.** This results in massive losses when the risks materialise. Further, the insurance premiums are very high for the sector due to the high-risk assessment therein. Further, withholding tax (WHT) on re-insurance premium increases cost of insurance.
- (f) **High Competition.** Intense competition, particularly for local contracts, has resulted in service providers submitting bids with extremely narrow profit margins. Further, it is not possible to negotiate for better contract terms after the award of contract. Combined with delays in payment and credit financing challenges, this situation can result in financial losses during contract execution, and in some instances may even lead to the inability to fulfil the terms of these contracts.
- (g) **Currency and Exchange Rate Risks.** International trade in the O&G sector exposes stakeholders to currency exchange rate fluctuations. Exchange rate risks can impact the cost of goods and services, potentially eroding profit margins and putting the businesses at a risk of financial distress.
- (h) **Project Delays and Cancellations.** Oil and gas projects are susceptible to delays due to technical, logistical, or regulatory reasons. This is further complicated by delays by IOCs, Licensees, and contractors to issue contracts, affecting the execution time. Such delays cause financial losses and resource reallocation challenges for all stakeholders in that contract value chain.
- (i) **Limited Government Support.** In certain instances, local contractors believe that their concerns, when disadvantaged by international companies, are not addressed fairly or promptly by the government.
- (j) **Infrastructure and Logistics Challenges.** Developing infrastructure, such as roads, bridges, regular electricity, among others in Uganda is a challenge. Delays in infrastructure development has affected the efficient transportation and delivery of products and services critical to the sector.
- (k) **Fluctuations in Oil Prices.** The O&G sector's financial stability is closely tied to global oil prices. Volatile price fluctuations can impact profitability, investment decisions, and revenue projections. Stakeholders need to employ risk management strategies to mitigate the effects of price volatility.



- (l) Environmental and Social Responsibilities.** The oil and gas sector is under increasing pressure to address environmental and social responsibilities. Stakeholders must invest in sustainable practices and adhere to environmental regulations, which can add complexity and costs to operations.

These challenges collectively underscore the dynamic and multifaceted nature of the oil and gas sector, requiring stakeholders to employ strategic management, risk mitigation strategies, and adaptability to navigate the complexities and uncertainties inherent in the industry.

7.13.2 Regulatory Constraints to the IOCs

The International Oil Companies (IOCs) have identified certain constraints that, if addressed, would enhance the dynamics between IOCs and other stakeholders in the Oil and Gas industry.

- (a) Challenges in Recovering Financing Costs.** IOCs encounter difficulties in recovering some of their financing costs, which poses a barrier to their financial sustainability and ultimately their ability to reliably service the subsequent contracts with other downstream players in the O&G sector.
- (b) Incomplete VAT Exemption Coverage.** The VAT exemption currently in place does not encompass all relevant aspects of the O&G industry, creating inconsistencies in tax treatment.
- (c) Inconsistent Interpretation of the VAT Law.** There is a lack of uniformity in the interpretation and application of VAT laws, leading to uncertainty and potential disputes regarding tax obligations within the industry.

Addressing these constraints would contribute to a more harmonious and efficient operational environment within the O&G sector, fostering improved relationships and collaboration between IOCs and other industry participants.

7.14 Support Provided by the IOCs.

The International Oil Companies (IOCs) interviewed expressed their commitment to promoting the growth of local companies and their workforce through the following initiatives:

- Providing supplier training and skills development programs for locals, including offering scholarships.
- Facilitating knowledge transfer and providing guidance on oil and gas industry standards, vendor requirements, procurement practices, and effective partnership execution.
- Active participation in quarterly contractor workshops as required by legal mandates.
- Offering technical support to companies aiming to achieve ISO standards, thus enhancing their operational excellence.

It is essential for International Oil Companies (IOCs) to extend their support to the financial sector to facilitate funding and ensure that the credit extended remains in good standing.

Besides those that do not provide direct support since their primary contribution lies elsewhere in their contractual relationships, IOCs stated that they contribute to the financial sector support in the following ways:



- (a) Timely Payment Facilitation.** IOCs ensure timely payments to contractors, enabling them to fulfil their financial commitments to the banking and financial sector and other stakeholders in the industry. This punctuality in payments enhances the financial stability of contractors.
- (b) Adherence to Bank Payment Specifications.** IOCs strictly adhere to the specified bank payment per contract and refrain from making changes to the payment arrangements during the contract period. This consistency in payment procedures ensures predictability and reliability in financial transactions.

For Contract Issuance, however, the IOCs stated that they support the local contractors in accessing financial services, specifically credit, if they provided contracts that are bite sized per phase. This enables financing in smaller amounts, monitoring, and support into the next phase of financing.

08

Chapter Eight: RECOMMENDATIONS



This chapter spells out recommendations to enhance participation by various stakeholders in the O&G industry with consideration of best practice. The recommendations are structured according to category, namely for SFIs, regulators, government and contractors and O&G sector players as follows:

- (a) Specific initiatives by Supervised Financial Institutions
- (b) Policy recommendations
- (c) Regulatory accommodations, dispensations, and incentives
- (d) Contractor and O&G sector player Recommendations



These are presented below:

Table 11: Recommendations

a) Specific initiatives by Supervised Financial Institutions		
Recommendation	Priority	Action Party
i) Upskilling and capacity building - Build internal and human resource capacity and expertise to handle the unique and emerging requirements of the O&G sector.	High	SFIs UBA
ii) Increase lending capacity - Consider syndication for large transactions required by the Oil and Gas sector (especially the upstream and midstream projects). To achieve this, FIs should develop a strategic framework to operationalise syndication.	High	SFIs UBA BOU
iii) Review of the Oil and Gas Strategy and supporting processes to speak to the unique needs of the O&G sector including structuring facilities based on the contract terms and repayment cycle with due respect to delayed payments.	High	SFIs
iv) Leverage parent companies for expertise, capital, and human resources to increase the capacity and readiness to support the Oil and Gas sector.	High	SFIs
v) Product development - SFIs should develop specific products, services, and channels to speak to the unique needs and requirements of the Oil and Gas sector.	High	SFIs
vi) ESG Regulations - Develop and embed regulations to address ESG, climate change and associated risks, aligning financial activities with sustainability goals.	High	BoU UBA SFIs
vii) Client and stakeholder capacity building - invest in building the capacity of SFI oil and gas clients and stakeholders by offering training on key aspects including record keeping, financial management, contract management, among others.	High	SFIs
viii) Engage the Commissioner for Petroleum Supply at MEMD and PAU to negotiate access rights of UBA members to the National Petroleum Information System to facilitate lending and information access by SFIs.	High	UBA
ix) Engage PAU, NEMA and BoU to enact a joint regulatory guidance circular on a harmonized ESG risk assessment framework for the oil and gas sector lenders.	High	UBA BOU
x) Structure a funding framework or special purpose vehicle to which financial institutions can participate in fundraising for specific projects in the oil and gas sector. This framework can be utilized for financing key projects e.g., the oil refinery.	Medium	SFIs
xi) Establish partnerships with external providers of capital and multilateral financial institutions in order to access appropriate and affordable funding.	Medium	SFIs



xii) SFIs should adopt O&G sector segmentation and categorization of all facilities that are directly or indirectly linked to the O&G sector and should leverage the information and data available to gain a comprehensive understanding of the opportunities within the oil and gas sector so as to be able to appropriately size the opportunity, especially as it relates to local content.	Medium	SFIs
xiii) Insurance Consortium – Build collaboration with the Insurance Consortium for O&G to underwrite risks which will increase the overall share of wallet of the insurance revenue from the O&G sector.	Medium	SFIs UIA
xiv) Contract Enforcement – Consider and equip ICAMEK as a specialised O&G arbitration centre because O&G contracts are more specialised and complex.	Medium	SFIs UBA
xv) Make input to the proposed Local Content Fund - Implement a dedicated fund that offers subsidized funding and risk guarantees to facilitate financial support within the oil and gas sector.	Medium	SFIs UBA BOU
xvi) The banking sector should actively promote and facilitate the adoption of guarantees as an alternative form of collateral as companies face challenges in providing adequate collateral thus guarantees can serve as an effective means to bridge this collateral gap.	Medium	SFIs

b) Recommendations to SFIs for mitigating and/or managing ESG Risks in the O&G Sector

- i) Integration of ESG Factors in Investment Analysis. Incorporate ESG agenda in investment analysis processes to assess the ESG practices of companies in the O&G sector. This may involve developing ESG scoring models, using third party ESG ratings or conducting proprietary ESG research.
- ii) Engage with Portfolio Companies and Regulators. FIs should engage with O&G companies and regulators to encourage transparency and improvement in ESG performance. This may include dialogue on issues such as climate change, environmental stewardship, human rights, labour practices and board diversity.
- iii) Screening and Exclusion Policies. Implement screening and exclusion policies to avoid investing in O&G companies with significant ESG risks or controversies. FIs may also choose to divest from companies involved in environmentally damaging activities, human rights abuses or have inadequate governance structures.
- iv) Risk Management and Due Diligence. Conduct rigorous ESG due diligence as part of the risk management processes when considering investments in the O&G sector. This includes evaluating climate related risks, regulatory compliance, potential liabilities associated with environmental and social impacts, and reputational risks. This can also include regular site visits to ensure the business is not in a gazette area, has proper governance systems, and is in compliance with all relevant laws and regulations.
- v) Stress Testing and Scenario Analysis. Perform stress testing and scenario analysis to assess the resilience of O&G investments to various ESG risks, including physical risks (e.g., climate change impact and natural disasters), transition risks (e.g., policy changes, and technological advancements), and litigation or regulatory risks.
- vi) Encouraging Transition to Low Carbon Energy. Support and finance initiatives that facilitate the transition to low carbon economy within the O&G sector. This may involve investing in renewable energy projects, energy efficiency improvements, carbon capture and storage technologies, and other clean energy solutions.
- vii) Transparency and Reporting. Advocate for greater transparency and disclosure of ESG related information by O&G companies and encourage reporting of ESG performance using frameworks and Sustainability Accounting Standards Board (SASB) standards.



viii) Collaboration and Knowledge Sharing. Collaborate with other FIs, Industry Associations, Regulators, NGOs, Policy Makers, Development Partners, among others to share best practice, develop industry standards, and drive collective action on ESG issues within the O&G sector.

Other ways in which FIs can manage ESG risks in the O&G sector include the following.

- Ensure that the O&G clients have social licenses to operate and ESG frameworks including risk management and mitigation strategies.
- Capacity building and awareness for both SFI staff and clients on different O&G processes, related ESG risks, standards, and regulations.
- Provide support to ESG Impact Assessments e.g., focus studies on ESG related issues.
- Leverage resources and frameworks from parent groups to enable skilling, capacity building, source for relevant funds, among others that will benefit the customers in the sector.

c) Regulatory Recommendations

Recommendations	Priority	Action Party
i) Consider making provision for flexibility/exceptions on single obligor limits for O&G transactions.	High	BOU
ii) Operationalise the local content fund - including a percentage of contracts awarded by Licensees.	High	MEMD MoFPED SFIs
iii) Create a sector code for reporting Oil and Gas transactions to ensure proper monitoring and reporting of oil and gas transactions.	Medium	BOU
iv) Management of the Petroleum Fund – Lobby for consideration and inclusion to support SFIs	Medium	UBA BOU
v) Lobby through PAU to review the number of days it takes to pay an invoice.	Medium	BOU PAU

d) Policy Recommendations

Recommendations	Priority	Action Party
i) Review Value Added Tax (VAT) collection – from the current system of charging VAT after issuance of the invoice to charging VAT upon payments being made. This can be achieved by collecting the VAT directly from source of payment.	High	MoFPED URA
ii) Capacity building and increased awareness of all stakeholders in the Oil and Gas sector. Furthermore, support the creation of associations of different groups of stakeholders along the Oil and Gas value chain.	High	MEMD PAU



iii) Tax Law Changes - Explore changes in tax laws, including the provision of tax incentives and rebates, to incentivize financial institutions to invest in the oil and gas sector, promoting economic growth and development.	High	MOFPED URA
iv) Reduction of Taxes – Revisit WHT on re-insurance premium and waive VAT on O&G products.	High	MOFPED URA
v) Engage Ministry of Finance, NEMA, PAU, the Capital Markets Authority (CMA) and BoU on enactment of guidelines for green financing and lobby for adequate incentives such as tax rebates to finance the energy transition and make Uganda's oil and gas sector more sustainable as per the National Climate Change Act, 2012.	High	UBA
vi) Allow to have a portion of the Petroleum Revenue Investment Reserve (PRIR) invested locally to increase the capacity of SFIs to lend to the Oil and Gas sector.	Medium	MoFPED
vii) Consider incentives for local contractors e.g., tax rebates, exemptions, and holidays.	Medium	MoFPED URA
viii) The judiciary should undertake specialised training to handle O&G cases so that they can be fast tracked.	Medium	Ministry of Justice and Constitutional Affairs
ix) Engage Ministry of Finance/Treasury and BoU on Cabinet approval for a statutory instrument to permit SFIs to access part of the PRIR for investment purposes in consultation with the Secretary to the Treasury and on the advice of the Investment Advisory Committee established under section 66 of the PFMA.	Medium	UBA

e. Recommendations to Contractors and O&G sector players - Customer Readiness to secure financing and effectively execute contracts.

To ensure SFIs optimally support the oil and gas sector, customers play a pivotal role. Customers should prepare themselves well and in time if they are to secure bank financing. The consensus among all respondents is that customers, particularly Small and Medium Enterprises (SMEs), which are predominantly informal, should

prioritize formalizing their businesses. This involves establishing proper documentation and maintaining comprehensive records including financial records. Additionally, formalisation necessitates the establishment of sound management and governance structures. These steps are essential in positioning SMEs to actively participate in the O&G sector and enable them to secure bank funding when needed. Further recommendations are also outlined in the figure below.

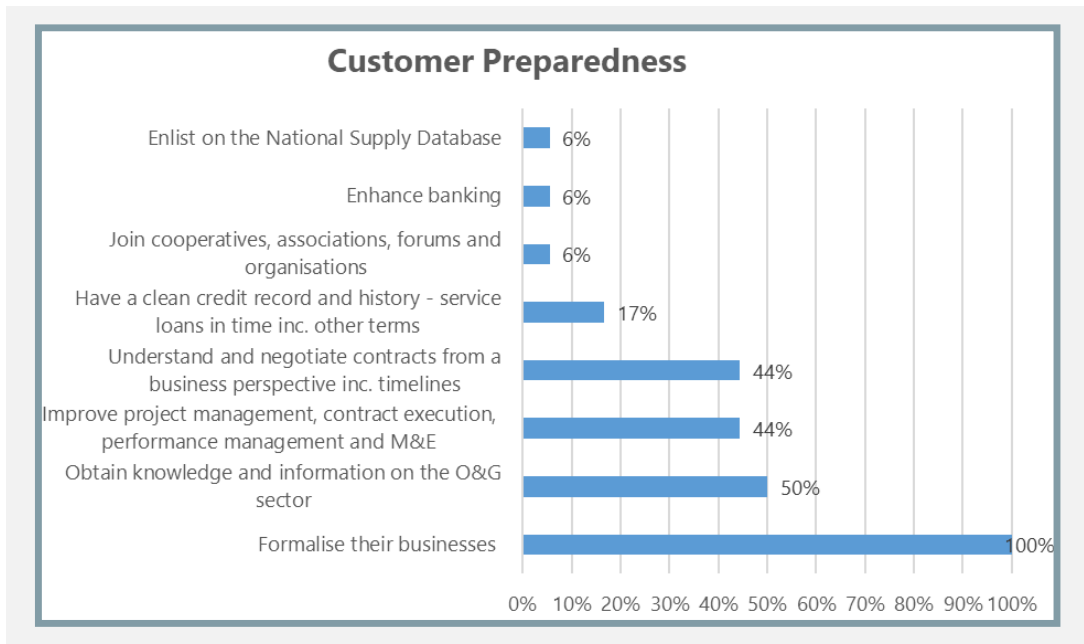


Figure 17: Customer Preparedness to secure financing and effectively execute contracts.

In addition to the recommendations above, customers are advised to undertake the following proactive actions.

1. **Risk Understanding and Mitigation** - Gain a comprehensive understanding of the risks inherent in the oil and gas sector, particularly in their specific sub-sector and implement appropriate risk mitigation measures, including insurance coverage.
2. **Internal vetting process** - Conduct an internal vetting process to confirm that they possess the necessary resources and capabilities to fulfil the contracted work effectively.
3. **Effective Communication** - Maintain regular communication with FIs and other key stakeholders to ensure contract execution aligns with the specified terms and conditions. Keep communication lines open, even when facing challenges, to facilitate timely contingency planning and support.
4. **Contract Adherence** - Adhere to contract requirements and obligations. In the event of challenges, promptly inform relevant parties.
5. **Documentation Management** - Ensure proper documentation is organized to streamline turnaround times and prevent delays.
6. **Early Preparation and Engagement** - Initiate early preparations and engage with FIs and other stakeholders in advance, familiarizing themselves with prerequisites.
7. **Cashflow Management** - Secure adequate cashflows to initiate projects before payments are received, preventing execution delays due to cashflow constraints.
8. **Partnerships and Joint Ventures** - Explore partnerships and joint ventures that can enhance contract execution capabilities.
9. **Capacity Building** - Participate in capacity-building initiatives, training programs, and awareness sessions to equip business owners and staff with the necessary skills and expertise to fulfil contracts effectively.



10. **Professional Advice** - Seek professional advice and guidance on critical areas, including contract interpretation and compliance.
11. **Needs Assessment** - Understand specific business needs and procure resources, accordingly, ensuring a thorough comprehension of contract terms and conditions.
12. **Product Service Knowledge** - Familiarize themselves with FI products and services, seeking appropriate assistance to make informed choices which are beneficial to their businesses.

Training/handholding of Customers by SFIs.

In addition to customers readying themselves to secure bank financing, SFIs should also take a more active role in preparing their existing clients and potential clients within the oil and gas sector. The O&G sector is relatively new, and many players are still going through the learning curve. Clients' needs are not only limited to financial requirements, but also include training in various aspects, such as financial literacy, risk management, implementation of proper governance structures, and other capacity-building training. Some of these require significant capital investments that new contractors might not afford. This necessitates FIs to build the non-financial capacity of their clients to avoid the risks that come with ill-preparation. These proactive measures empower customers to navigate the complexities of the oil and gas sector, optimize their contract execution capabilities, and make informed decisions regarding financing options provided by FIs.

8.1 INSIGHTS FROM LITERATURE

8.1.1 Internal/ local mobilization of funds

Local financial institutions can establish a dedicated fund by contributing to it regularly. This fund can then be utilized to finance projects and initiatives related to the oil and gas sector. Initially, the fund can support critical activities such as staff development programs and client capacity building as well as insurance premium financing. As the fund grows, it can be used for financing larger-scale projects within the oil and gas sector. The funds invested in this Special Purpose Vehicle (SPV) would be off-balance sheet and hence their deployment would not be restricted by regulatory standards and requirements.

Kwarteng et al (2019) investigated the role of project finance for local entrepreneurs in the oil and gas industry and identified it as an alternative source of financing projects in Ghana. SMEs in Ghana required as much as 100,000 USD as start-up capital to successfully begin projects in the oil and gas sector. Since this amount may not be easily generated by most local companies and individual contractors, the financial sector serves as the single most popular avenue. Their results revealed that banks and other financial institutions could resort to the project finance method to reduce the risks within the oil and gas industry. They further noted that project finance is a viable avenue for SMEs facing challenges in raising start-up capital to finance oil and gas projects in developing countries despite the associated bottlenecks. Financial institutions in Uganda could similarly employ the project finance model to mitigate economic/ financial risks encountered by indigenous oil and gas contractors.



8.1.2 Syndication

In the past two or three decades, banks have increasingly interconnected due to the growing funding needs of corporations, both in size and complexity. Syndicated loans are typically more efficient than bilateral loans (Khandelwal, 2021). Syndication involves less time and effort and offers diverse types of loans and securities as multiple lenders contribute to the syndicated loan and diversify their risk. Likewise, borrowers are able to undertake huge capital-intensive projects, which could not be undertaken by individual lenders due to capital and regulatory constraints. According to the Independent Development Evaluation (IDEV) of the African Development Bank (AfDB) group, other benefits of syndication include successful and faster closure of deals when processes are efficient, reduction in the average size of syndicated deals could increase the Bank's activity, concentration could boost syndicated loan performance and the Bank's additionality and it ensures success due to a strong network of lenders (AfDB, 2019).

Syndicated loans are often used by countries or companies making their first step into international capital markets before approaching public debt capital markets. For borrowers already active in public debt capital markets, syndicated loans serve to diversify financing sources and expand investor reach. The flexibility and cancellable nature of syndicated loans and bridge financing make them popular in corporate merger and acquisition financing. Additionally, they play a crucial role in financing the development of finance institutions and commercial banks. Syndicated loans have been used worldwide and Africa is no exception.

For example, Standard Chartered, the parent company of Standard Chartered Bank of Nigeria brokered a 1.2 billion USD facility to fund a Joint Venture project between the Nigerian National Petroleum Corporation (NNPC) and Chevron. The syndicate involved international and local Nigerian banks like Union bank, United Bank for Africa, Stanbic bank BTC, Zenith bank, Access bank, and Standard Chartered Bank Nigeria¹⁶. Other syndicated facilities include financing the Dangote refinery which involved a 3.3-billion-dollar syndicate, 12 Nigerian and foreign lenders to build the country's biggest oil refinery and petrochemical and fertilizer complex¹⁷. Furthermore, the AfDB has participated in several syndication deals in various countries as presented in the table below (AfDB, 2019).

¹⁶<https://guardian.ng/business-services/money/standard-chartered-leads-1-2b-nnpc-chevrons-jv-financing/>

¹⁷<https://www.bloomberg.com/news/articles/2013-09-04/dangote-wins-3-3-billion-loan-for-oil-refining-complex#xj4y7vzkg>



Table 12: Syndicated deals by AfDB, 2019)

Year	Project	Country	Bank's	AfDB	Others	Total Loan	Share of	Leverage
			Role				AfDB	Ratio
				(US\$ million)				
2011	Transnet	South	MLA	400	410	810	49%	1.03
	SOC	Africa						
2014	Lake	Kenya	MLA	175	606	781.25	22%	3.46
	Turkana							
	Wind							
	Power							
2016	Eskom	South	MLA	10	965	975	1%	96.50
		Africa						
2019	Redstone	South	MLA –	210	322	532	39%	1.53
		Africa	Club deal					
2019	Ghana	Ghana	MLA	150	450	600	25%	3.00
	Cocoa							
	Board							
Total				945	2,753.25	3,698.25	26%	2.91
Average				189	550.65	739.65	27%	

However, loan syndication can be challenging in the absence of standard operating procedures for the different players to abide by (Okonkwo, 2015). Also, a lack of coordination and low levels of mobilization could hinder the success of syndication¹⁸ and should be taken into consideration.

8.1.3 Sourcing for affordable funds

Another strategic initiative for financial institutions is to seek international financing partners who can provide funds at more favorable rates for on-lending to the oil and gas sector. This approach will not only enhance the attractiveness of local financial institutions to borrowers, given the low-interest rates, but it will also provide the advantage

of offering more flexible lending terms compared to utilizing regulated capital, which is subject to stringent regulatory standards. These sources of funds could be foreign investment funds, hedge funds, and multilateral development banks like International Finance Corporation (IFC), AfDB, Islamic Development Bank (IsDB), China Exim Bank, and the African Export-Import Bank (Afreximbank). For example, the Afreximbank and the African Finance Corporation (AFC) have invested about USD 16 billion in oil and gas projects across Africa¹⁹.

¹⁸Independent Development Evaluation (IDEV). Annual Report 2020

¹⁹<https://www.zawya.com/en/business/energy/2-african-development-banks-invest-16bln-in-oil-gas-projects-s2ejs3i2>



8.1.4 Lobbying government

Financial Institutions should lobby the Government to obtain cost-effective loans from the Petroleum Revenue Investment Reserve (PRIR). SFIs can then extend these funds to local content players at affordable interest rates. This approach serves a dual purpose: it fosters the development of local contractors' capabilities and enhances the capacity of local financial institutions. To ensure responsible use of the government funds, SFIs can implement robust measures to monitor and manage the allocated funds effectively. Furthermore, SFIs can demonstrate their commitment to maximizing returns by assuring the Government of better returns on its investment compared to the current returns from investing the PRIR abroad. The government can issue foreign currency Treasury Bills or Bonds which local SFIs can borrow from then lend to contractors in the oil and gas sector at capped interest rates. SFIs operating in the oil and gas sector should actively advocate for government to implement the Local Content Fund (LCF). SFIs can propose to manage the fund on behalf of the government, offering a reasonable return. Alternatively, they can access funds from the local content fund at lower interest rates and lend to well-prepared contractors at more affordable rates.

8.1.5 Lessons from Nigeria

Nigeria enacted the National Oil and Gas Industry Content Development (NOGICD) Act 2010 which provides for creation of the Nigerian Content Development Fund (NCDF) for purposes of funding local content in the Nigeria oil and gas sector. Under this Act, it is stipulated that 1% of every contract awarded to any project operator, contractor, subcontractor, or any entity involved in the upstream segment of the Nigerian oil and gas sector shall be deducted at source and paid into the fund. The Nigerian Content Intervention Fund had disbursed approximately USD 300 million to

fund 61 Nigerian companies in the oil and gas sector by the end of 2022 and these funds were from collections of the 1% levy²⁰. Assuming that this had been applied in the Ugandan context, approximately USD 60 million would have been recovered by now in consideration of the USD 6 billion contracts that have been issued to date in the upstream segment. It is critical that SFIs not only lobby to have this bill approved but also lobby to participate in the operationalizing of the fund by promising a good return to Government and ensuring that the funds will be better managed if spread amongst many Financial Institutions rather than being managed by one monopolistic entity. Implementing such a policy in Uganda would likely increase available capital among FIs, thereby enabling them to offer facilities to capital intensive projects in the oil and gas sector.

8.1.6 Lessons from Insurance Companies

Insurance holds significant importance in the oil and gas industry by offering crucial financial protection against potential risks like well kicks or blowouts, accidents involving both humans and equipment, theft, among others. On the side of contractors, insurance can offer an alternative to collateral and insure them against various risks that would interrupt their operations which would in turn affect their loan repayment. Financial institutions require Operator Extra Insurance to be affected by oil and gas operators or contractors as a conditionality or precondition to grant credit for oil and gas exploration, development, and production (Nyamikeh, 2014). The policy plays an essential role in ensuring that an appropriate oil and gas finance structure is attained through the deflection of risks deemed unacceptable away from investors and lenders to the insurer.

²⁰<https://www.thisdaylive.com/index.php/2022/12/20/ncdmb-disburses-n32-8bn-of-300m-boi-managed-intervention-fund-to-61-oil-firms>



The Uganda Insurers Association (UIA) established a collaborative entity called the Consortium for Oil and Gas Uganda (ICOGU) aimed at providing coverage for oil and gas risks concerning International Oil Companies. The consortium came into existence in 2016 and formally introduced its operational guidelines in 2019. These guidelines stipulate that all insurance companies contribute funds to the consortium, which it then utilizes to insure against significant risks for the IOC. Any risks that surpass the consortium's capacity are reinsured by foreign insurance companies that specialize in managing substantial risks, still operating within the framework of the consortium. As the IOCs pay their premiums, each insurance company within the consortium receives a share of the premium commensurate with their contribution. This approach ensures that all insurance companies derive benefits regardless of size. Above all, the consortium grants these insurance companies a strengthened position when engaging and negotiating with the IOCs, which would be less potent if they acted independently. Initiated with a modest pool of USD 300,000, the consortium's influence has grown steadily in tandem with the expansion of the oil and gas sector. Given the considerable scale of the oil and gas industry, the banking and financial sector can draw inspiration from the strategy employed by insurance companies to enhance their involvement and capabilities (IRA, 2019).

Furthermore, under the guidance of the IRA, participating consortium members have undergone specialized training focused on matters related to oil and gas and the associated risks. This equips them with a competitive advantage when addressing subjects concerning oil and gas. To manage and mitigate risks, financial institutions (FIs) can collaborate with insurance

companies to develop comprehensive solutions tailored to their client's needs, mainly those clients with substantial contracts but limited capacity or collateral to address their risk exposure. Furthermore, collaborative efforts between financial institutions and insurance companies can lead to the development of mutually beneficial products. For instance, FIs can establish a fund to guarantee or finance insurance premiums for significant exposures. Subsequently, insurance companies can offer insurance policies with the assurance that the fund will cover premiums as banks recover payments from their clients, generating interest in the process.

8.1.7 Staff capacity development

Investment in human capital in general and employer-funded training in particular have long been noted as key to improving firm performance and equipping individual employees for changes because of a firm's product mix and the wider environment. It plays a vital role at multiple levels for developing individual, organizational, and dynamic capabilities that are critical for sustained competitive performance of firms (Malik and Nilakant, 2011).

FIs should prioritize building their internal capacities, particularly human resources, as well as the frameworks, strategies, policies, and procedures to effectively lend to the oil and gas sector. The O&G sector is dynamic with each stage demanding different skill sets, which currently need to be improved within FIs in Uganda, as the O&G sector is relatively new and emerging. Investing in comprehensive training programs for employees ensures they acquire the necessary expertise and knowledge to cater to the sector's diverse needs at different stages.



An effective oil and gas lending program requires a team of management and staff with specialized knowledge and experience in recognizing, assessing, mitigating, and monitoring the unique risks associated with Exploration and Production (E&P) activities. Prudent E&P lending requires specialized expertise to ensure sound risk management. It is important to invest in adequate staff and infrastructure or to provide effective oversight of E&P lending, to considerably heighten the bank's strategic risk profile while influencing other interconnected risks, including credit and reputation risks to help in appreciating the dynamics therein and structuring of transactions²¹. Loan products for example Reserve-Based Loans (RBLs), which may be required by entities engaging in exploration ventures, require highly technical expertise (Office of the Comptroller of the Currency, 2018). The RBL typically is a revolving facility secured by lower risk proved reserves and governed by a borrowing base determined by a valuation of those reserves. Most RBLs have a term of three to five years. The RBL's purpose is primarily to fund acquisition and development costs for new reserves.

In addition to these broader capacity-building efforts, there is a need for specialized pockets of expertise within staff development. These specialized areas should include:

- 1. Understanding Oil and Gas Contracts** - Ensuring that staff possesses a thorough comprehension of the intricate contractual arrangements common in the oil and gas sector.
- 2. Project Management** - Equipping staff with project management skills, which are critical for overseeing complex projects within the sector.
- 3. Oil and Gas Master Classes** - Organizing specialized master classes focused on the oil and gas industry to deepen staff expertise in this domain.

By prioritizing staff development in these areas, FIs can elevate their capacity to effectively serve the oil and gas sector, aligning their services with the sector's specific requirements and demands.

²¹Office of the comptroller of the currencies comptroller's handbook, (2016),

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Chapter Nine: CONCLUSION



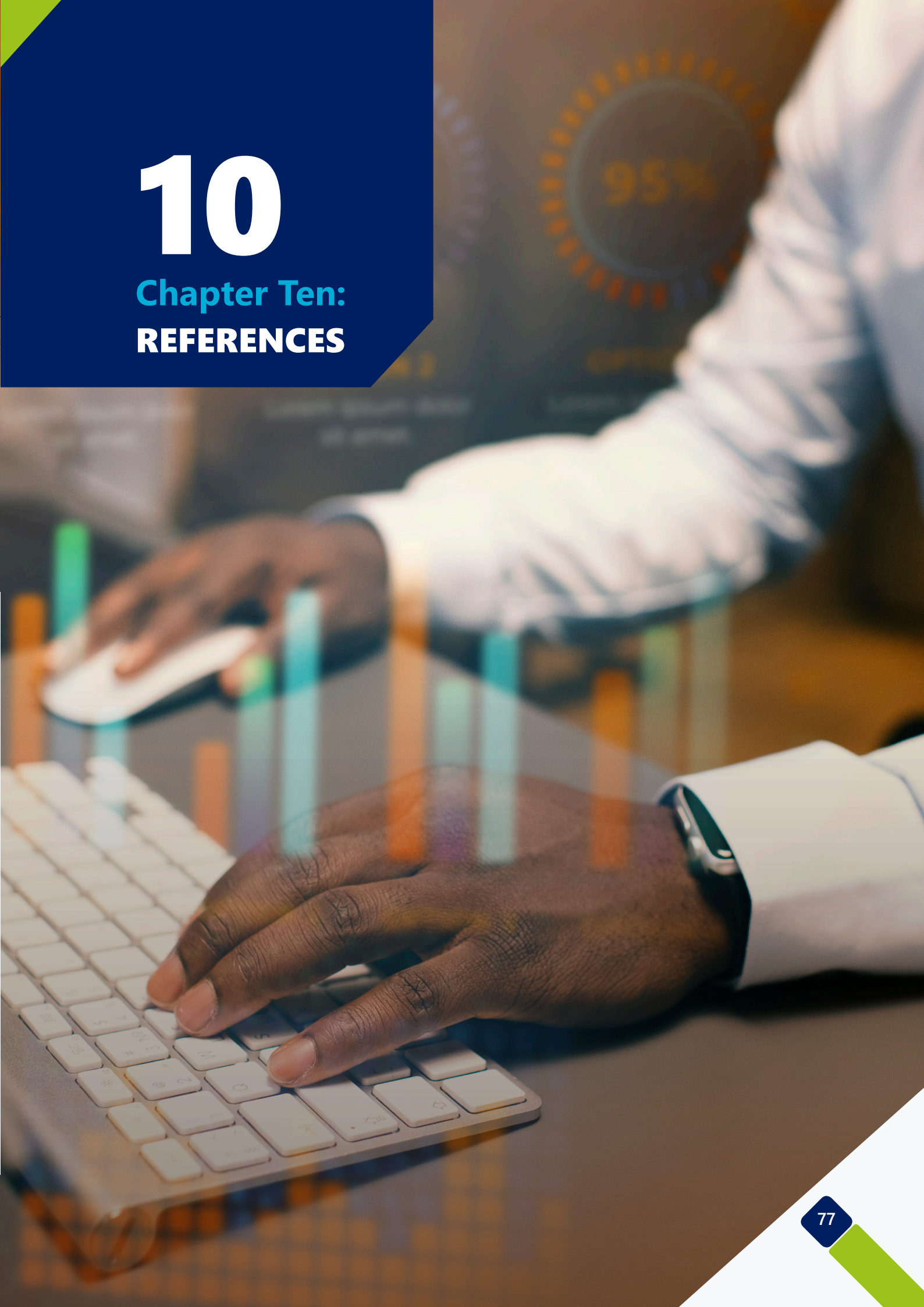
This study, aimed at evaluating the readiness of the banking sector to meet the requirements of the oil and gas sector, has shed light on crucial aspects pivotal to Uganda's oil and gas and banking sector landscape. The objectives of this assessment were driven by the imperative need to understand, quantify, and address the financial needs and challenges faced by all stakeholders in the oil and gas sector. This understanding has illuminated the potential for strategic alignment between the banking sector and the burgeoning oil and gas sector. Furthermore, the assessment has unveiled the constraints faced by the banking sector in financing O&G activities, and the oil and gas contractors/service providers while dealing with financial institutions. By highlighting these challenges, opportunities for targeted interventions and solutions have been provided, paving the way for more effective collaboration and support mechanisms. The recommendations from this assessment offer a roadmap for the banking sector's full engagement and support of the oil and gas sector. These recommendations span a spectrum of actions, including specific initiatives

by Supervised Financial Institutions, policy implementations by government and regulatory support, and dispensations and incentives for SFIs to participate in the oil and gas sector.

This report outlines a path for enhancing the participation of local SFIs, fostering collaboration, resource allocation, and strategic synergy. The assessment marks a crucial step in Uganda's journey towards harnessing the potential of its oil and gas sector. By addressing the financial challenges, promoting local content, and fostering collaboration between the banking and financial and energy sectors, Uganda is poised to meet the demands of its emerging O&G landscape and ensure sustainable economic growth and prosperity for its citizens. Through strategic alignment, targeted interventions, and proactive policies, Uganda is well-equipped to seize the opportunities that her growing oil and gas industry presents while at the same time growing her economy and empowering the citizens, as well as the banking sector.

10

Chapter Ten: REFERENCES





10.0 REFERENCES

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Chapter Eleven: APPENDICES



11.0 Appendices

Appendix A: UBA Members.

Tier I: Commercial banks	Tier II: Financial Institutions	Tier III: MDIs	Development Banks
ABC Capital Bank Limited			
Absa Bank	Mercantile Credit Bank	Pride Microfinance	Afrexim bank Uganda Limited
Bank of Africa	Brac Uganda Bank	UGAFODE	Uganda Development Bank
Bank of Baroda	Yako Bank	EFC Uganda Limited	East African Development Bank
Bank of India			
Cairo Bank Uganda		FINCA	
Centenary Bank			
Citi Bank			
dfcu Bank			
Diamond Trust Bank			
Eco Bank			
Equity Bank			
Exim Bank			
Finance Trust Bank			
Guaranty Trust Bank			
Housing Finance Bank			
I & M Bank			
KCB Bank			
NCBA			
Opportunity Bank			
Post Bank			
Salaam Bank			
Stanbic Bank			
Standard Chartered Bank			
Tropical Bank			
United Bank for Africa			



Appendix B: Financial Institutions that took part in the Study.

Tier I: Commercial banks	Tier II: Financial Institutions	Tier III: MDIs	Development Banks
Absa	Yako Bank	Pride Microfinance Limited.	Afreximbank
Bank of Africa	Mercantile Credit Bank	Top Finance Bank Uganda Limited.	
Bank of Baroda		FINCA Uganda Limited.	
Bank of India			
Cairo Bank			
Centenary Bank			
Citi Bank			
dfcu Bank			
Diamond Trust Bank			
Eco Bank			
Equity Bank			
Exim Bank			
Finance Trust Bank			
Guaranty Trust Bank			
Housing Finance Bank			
I & M Bank			
KCB Bank			
NCBA			
Opportunity Bank			
Stanbic Bank			
United Bank of Africa			



Appendix C: Tier 1 contractor categories

No.	Contractor Name (Tier-1)	Scope of Work	Country of origin	Category
1.	Cynibel	Supply of accommodation room utilities and consumables at Bugoma camp	Uganda	Accommodation
2.	Living Earth Uganda Ltd	Agricultural Support Services for RAPs 2-5	Uganda	Agriculture Support Services
3.	Equator catering services	Catering and Camp Management	Uganda	Catering
4.	Dynaco Limited	Kingfisher Escarpment Road Maintenance	Uganda	Construction
5.	Gauff Consultant (Uganda) Limited	Construction Water Management & Supply	Uganda	Construction
6.	KKATT	Construction Services	Uganda	Construction
7.	Harbor Construction & Engineering)	Terminal Construction.	Non-Ugandan	Construction O&G
8.	Bureau Veritas Exploitation SAS	Third Party Certification Services	Non-Ugandan	Consultancy
9.	Schneider/SNEF	Electrical, Instrumentation Controls, Telecommunication, Security	Non-Ugandan	Energy
10.	Eco-Trends Ltd	Baseline Biodiversity Survey of Wetlands Within Tilenga Project Area	Uganda	Environmental
11.	DOCG+BOHCE (Daqing Oilfield Construction Group + Bohai Oil	EPC Tanks	Joint Venture	EPC
12.	McDermott & Sinopec	Tilenga Project Engineering Procurement Supply Construction and Commissioning (EPSCC) of the main oil and gas production and processing facilities	Non-Ugandan	EPC
13.	Bemuga Fowarders Ltd	Regional Freight Forwarding Services	Uganda	Freight Services
14.	Esri Eastern African	Product Software & Support Renewal License (GIS Software)	Non-Ugandan	ICT
15.	Mantra Technologies Uganda	Supply of Cisco switches and routers	Uganda	ICT
16.	Consortium of KAA, and White and Case LLP	Legal services in major oil and gas agreements	Joint Venture	Legal
17.	Shonubi & Co. Advocates	Land Registration and Titling Services	Uganda	Legal



18.	Mineral Services Limited	Camp maintenance services	Uganda	Logistics
19.	Baker	Drill Bits and Nozzles	Non-Ugandan	Logistics equipment
20.	PM Piping Uganda Ltd	Supply & Delivery of Drilling Conductor Pipes (1 million US dollars)	Uganda	Logistics equipment
21.	Q-sourcing	Manpower Services	Uganda	Logistics HR
22.	G4S Secure Solutions (U) Limited	Provision of Security Services	Uganda	Security Services
23.	Airtel Uganda Limited	Provision of Telecom Services	Uganda	Telecom Services
24.	MTN Uganda Limited	Provision of Telecom Services	Uganda	Telecom Services
25.	Intercar Uganda Limited	Provision of Motor Vehicles.	Uganda	Transportation
26.	Threeways Shipping Services (Group) Ltd	Intrafield Cargo Transportation and Handling & Lifting Services for the Tilenga Development Project.	Uganda	Transportation
27.	EnviroServ Uganda Limited	Drilling Waste Management	Uganda	Waste Mngt



Appendix D: Tier 2 Contractor categories

No	Sub- Contractors (Tier 2 & Others)	Scope of Work	Country of origin	Category
1.	Kolping Holdings (U) Limited	Accommodation And Meals Services	Uganda	Accommodation & Meals
2.	Jadas International Limited	Branded materials	Uganda	Advertising
3.	Mude Mabone Construction Company Ltd	Construction for explosives and radioactive warehouse in KF	Uganda	Construction
4.	Concrete Classics	Provision of Culverts	Uganda	Construction material
5.	Atacama Consulting	Environmental Consultancy Services	Uganda	Consultancy
6.	Aramex Uganda Limited	Courier Services	Uganda	Courier Services
7.	Capital Shoppers Ltd	Assorted Groceries	Uganda	Groceries
8.	Kamit Energies Uganda Limited	Oil Tank Inspection services	Uganda	Engineering
9.	Fulcrum Regis Uganda Limited	Equipment Amortization & Rental	Uganda	Equipment Supplies
10.	Steelworks	Iron Mongery Windows and Doors	Uganda	Fabrication
11.	Thomas & Co. Ltd	Food Supplies	Uganda	Food and Beverages
12.	Kabalega Resorts Limited	Food Supplies	Uganda	Hospitality
13.	Apolo Hotel Corporation Limited T/A Sheraton Kampala Hotel	Hotel Services	Uganda	Hotels
14.	PPE Centre	Provision of Personnel Protective Equipment	Uganda	HSE
15.	SBS System Uganda Limited	IT Hardware	Uganda	ICT
16.	Clarkson	Insurance Services	Uganda	Insurance
17.	Jubilee Insurance (U) Ltd.	Insurance Services	Uganda	Insurance
18.	AF Mpanga Advocates	Legal Services	Uganda	Legal
19.	ESSAR	Structural, Mechanical & Piping Installation	Non-Ugandan	Logistics
20.	Karmod Kenya Limited & Beta Jmg Jv Company	Camp Construction	Joint Venture	Logistics
21.	GCC Services Uganda Limited	Camp management services	Uganda	Logistics



22.	East African Piling Company Ltd	Conductor Pipe Installation	Uganda	Logistics
23.	Kampala Electric Mart	Tools	Uganda	Logistics Equipment
24.	Energy Services Limited	Recruitment Services	Uganda	Logistics HR
25.	City Medicals Limited	City Medical May Bill	Uganda	Medical
26.	JV Frontiers	Subcontracting Civil & drainage works	Uganda	Civil and Drainage Works
27.	Silver Tours and Logistics	Transportation of personnel	Uganda	Transportation
28.	Green Label Services	Waste Management	Uganda	Waste Management



Appendix E: Contractors interviewed.

Company name	Location
G4S	Kampala
Intercar	Kampala
PPE	Kampala
Enviroserv	Kampala
Bureauveritas	Kampala
Avanti	Kampala
Atacama	Kampala
Silver Tours	Kampala
Mcdermont	Kampala
Threeways Shipping	Kampala
Sheraton Kampala Hotel	Kampala
Living Earth	Kampala
City Ambulance	Kampala
PM Piping	Kampala
Shonubi Musoke Advocates	Kampala
Q-sourcing	Kampala
Jubilee Insurance	Kampala
Clarkson	Kampala
GCC	Kampala
Equator Catering	Kampala
Cynibel Supermarket	Kampala
Total Energies E&P	Kampala
Miika Resort	Hoima
Pure Grow	Hoima
Rohi	Kikuube
Excel Construction	Kikuube
Newrest	Kikuube
CCJV	Kikuube
Mcdermont	Buliisa
Luweero Industries	Kikuube
UNOC	Kampala
CNOOC	Kampala



Appendix F: Participating agencies

No.	Agency/Ministry	Location
1.	Bank of Uganda	Kampala
2.	Uganda Insurers Association	Kampala
3.	Uganda Chamber of Mines and Petroleum	Kampala
4.	Uganda National Oil Company	Kampala
5.	Insurance Regulatory Authority	Kampala
6.	Petroleum Authority of Uganda	Kampala
7.	National Planning Authority	Kampala



Figure 18: FGDs in (A) Kingfisher and (B) Tilenga oil camps.

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