SUSTAINABLE DEVELOPMENT OF PETROLEUM RESOURCES PROGRAMME

SEMI-ANNUAL BUDGET MONITORING REPORT

FINANCIAL YEAR 2022/23

APRIL 2023

Budget Monitoring and Accountability Unit
Ministry of Finance, Planning and
Economic Development
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ACRONYMS AND ABBREVIATIONS

AGRC	Albertine Graben Refinery Consortium
CNOOC	Chinese National Offshore Oil Corporation
CPF	Central Processing Facility
CWE	China International Waters and Electric Corporation
DP	Directorate of Petroleum
E&P	Exploration and Production
EA	Exploration Area
EAC	East African Community
EACOP	East African Crude Oil Pipeline
EISA	Environmental Impact and Social Assessment
EPC	Engineering Procurement and Construction
FDP	Field Development Plan
FEED	Front End Engineering Design
FID	Final Investment Decision
GoU	Government of Uganda
HGA	Host Government Agreement
HSE	Health Safety and Environment
JST	Jinja Storage Terminal
KST	Kampala Storage Terminal
LPG	Liquefied Petroleum Gas
MDAs	Ministries, Departments and Agencies
MEMD	Ministry of Energy and Mineral Development
MFPED	Ministry of Finance, Planning and Economic Development
MoJCA	Ministry of Justice and Constitutional Affairs
MLHUD	Ministry of Lands, Housing and Urban Development
MPS	Ministerial Policy Statement
NDP III	National Development Plan 3
NEMA	National Environment and Management Authority
NOGTR	National Oil and Gas Talent Register
NOGP	National Oil and Gas Policy
NPC	National Pipeline Company
NPP	National Petroleum Policy
OGTAU	Oil and Gas Training Institutions Association of Uganda
PAPs	Project Affected Persons
PAU	Petroleum Authority of Uganda
PDHs	Physically Displaced Households
PEPD	Petroleum Exploration and Production Department
PIAP	Programme Implementation Action Plan
PIP	Public Investment Plan
PPDA	Public Procurement and Disposal of Assets
PPP	Public-Private Partnership

PRR	Petroleum Reservoir Report
PSA	Production Sharing Agreement
QHSSE	Quality Health, Safety, Security and Environment
RAP	Resettlement Action Plan
RDP	Refinery Development Program
RMP	Reservoir Management Plan
ROW	Right of Way
SDPR	Sustainable Development of Petroleum Resources
SEA	Strategic Environmental Assessment
SME	Small Medium Enterprise
UNBS	Uganda National Bureau of Standards
UNOC	Uganda National Oil Company
URHC	Uganda Refinery Holding Company Limited
VTI	Vocational Training Institution

FOREWORD

Uganda like many other countries in the world continues to be affected by the aftermaths of the Coronavirus Disease (COVID-19) pandemic, Russia's invasion of Ukraine, climate change effects, and increasing food prices among the many global shocks today. Amidst this environment, the Government has shown a strong commitment to innovatively raise and allocate resources to fund its strategic interventions, in a bid to build resilience and drive sustainable economic growth and development.

For this Financial Year 2022/23, the semi-annual programme monitoring findings show a fair performance across the board, with a few programmes on track to achieving their annual goals. This performance notwithstanding, there are still many perennial challenges that are putting many government interventions at risk of not achieving their intended objectives.

Since we are operating in an environment of scarcity, it is imperative that we expedite the processes of streamlining and strengthening our planning, implementation, monitoring and execution of Government programmes. We must harness the comparative advantages expected from operating in a programme mode. To that effect, all Ministries, Departments, Agencies and Local Governments should critically review the noted challenges and institute innovative ways of circumventing them during the remaining months.

Ramathan Ggoobi

Permanent Secretary/Secretary to the Treasury

EXECUTIVE SUMMARY

The Sustainable Development of Petroleum Resources (SDPR) Programme aims at attaining equitable value from the petroleum resources and spur economic development in a timely and sustainable manner. The programme is composed of three sub-programmes namely: Upstream, Midstream and Downstream. This report presents monitoring findings for the period 1st July 2022 to 31st December 2022.

The semi-annual programme performance for Financial Year (FY)2022/23 was fair at 60.5%. The budget for the programme for FY 2022/23 is Ug shs 880.02 billion (bn) of which Ug shs 743.60bn (84.5%) was released and Ug shs 493.62bn (66.4%) spent by 31st December 2022. The bulk of the funding to the programme was for the Uganda National Oil Company (UNOC) equity contribution to the East African Crude Oil Pipeline.

The **Upstream Sub-programme** performance was fair at 61.9%. Further exploration work in the Moroto-Kadam basin did not progress due to the insecurity in the Karamoja region. Review and acquisition of data from the Kyoga basin continued during the first half of the FY2022/23. Civil works for the enabling infrastructure (industrial area site preparation, access roads, well pads, camps, construction support bases) was at 82% and 66% for Tilenga and Kingfisher areas respectively by 31st December 2022. The drill rig for the Kingfisher oil field was installed at the site and drilling at well pad 2 was ongoing.

Under the **Midstream Sub-programme** semi-annual performance was fair at 66.5%. Final Investment Decision (FID) for the East African Crude Oil Pipeline (EACOP), Host Government agreements, Inter-Governmental Agreements were negotiated and concluded. The construction license for the EACOP was also awarded to the joint venture partners after the FID for the project was reached in February 2022. Government, also released Ug shs 438.35bn to UNOC as part of its 15% shareholding in the EACOP. The process of acquisition of the pipelines corridors, compensation for the EACOP and products pipeline (Hoima – Kampala) continued and cumulative progress recorded was at 78% and 45% respectively.

The performance of the **Downstream Sub-programme** was fair at 53.2%. The UNOC took over management of the Jinja Storage Terminal (JST) from One Petroleum Ltd (OPL) on 23rd December 2022. The UNOC continued to engage the JST hospitality clients as part of the change management process aimed at informing them of the JST operatorship changes and expectations from UNOC as the new operator. However, during the review period, UNOC did not get any funds for restocking the JST. The promotion and dissemination of Liquefied Petroleum Gas (LPG) cylinder kits progressed cumulatively to 25.8% of the planned targets but was constrained by delayed procurement for the kits and land for the storage terminals.

Challenges

1. Delayed compensation process, coupled with inadequate funds and rampant complaints from the EACOP project affected persons (PAPs) in the pipeline corridor and feed pipelines.
2. Insufficient funding hindering the progress of some of the planned activities needed to be undertaken as preparations for the production of the oil.

Recommendations

1. The Ministry of Energy and Mineral Development (MEMD) and Petroleum Authority of Uganda (PAU) should fast-track compensation for the products pipeline and strengthen the monitoring and supervision of the ongoing compensation process for EACOP PAPs to ensure the process is undertaken fairly.
2. The MEMD and Ministry of Finance, Planning and Economic Development (MFPED) should prioritize capitalizing the Oil and Gas Sector so that there are no further delays in the production of oil.

CHAPTER 1: INTRODUCTION

1.1 Background

The mission of the Ministry of Finance, Planning and Economic Development (MFPED) is, "*To formulate sound economic policies, maximise revenue mobilisation, and ensure efficient allocation and accountability for public resources so as to achieve the most rapid and sustainable economic growth and development.*"

The MFPED through its Budget Monitoring and Accountability Unit (BMAU) tracks implementation of programmes/projects by observing how values of different financial and physical indicators change over time against stated goals, indicators and targets (how things are working). The BMAU work is aligned to budget execution, accountability, service delivery, and implementation of the Domestic Revenue Mobilisation Strategy (DRMS).

Commencing FY2021/22, the BMAU began undertaking Programme-Based Monitoring to assess performance against targets and outcomes in the Programme Implementation Action Plans (PIAPs)/Ministerial Policy Statement. Semi-annual and annual field monitoring of government programmes and projects was undertaken to verify receipt and application of funds by the user entities and beneficiaries, the outputs and intermediate outcomes achieved.

The monitoring covered the following Programmes: Agro-Industrialisation; Community Mobilisation and Mindset Change; Digital Transformation; Human Capital Development; Innovation, Technology Development and Transfer; Integrated Transport Infrastructure and Services; Manufacturing; Mineral Development; Natural Resources, Environment, Climate Change, Land and Water Management; Public Sector Transformation; Regional Development; **Sustainable Development of Petroleum Resources**; and Sustainable Energy Development.

This report presents findings for the semi-annual monitoring of selected projects under the Sustainable Development of Petroleum Resources Programme for the budget execution period 1st July 2022 to 31st December 2022.

1.2 Programme Goal and Objectives

The Sustainable Development of Petroleum Resources (SDPR) Programme aims at attaining equitable value from the petroleum resources and spur economic development in a timely and sustainable manner. The programme is composed of three sub-programmes namely: Upstream, Midstream and Downstream.

The key programme objectives are to:

1. Ensure sustainable production and utilization of the country's oil and gas resources.
2. Strengthen policy, legal and regulatory frameworks as well as institutional capacity of oil and gas industry.
3. Enhance local capacity to participate in oil and gas operations.
4. To promote private investment in oil and gas industry.
5. Enhance Quality Health, Safety, Security and Environment (QHSSE).
6. Improve security of supply of refined petroleum products.

The key expected results include:

1. Reducing the volume and value of imported petroleum and petroleum products.
2. Increasing revenue from oil and gas industry and its contribution to Gross Domestic Product (GDP).
3. Creating more employment opportunities for Ugandans along the petroleum value chain.

CHAPTER 2: METHODOLOGY

2.1 Scope

This report is based on selected projects in the Sustainable Development of Petroleum Resources Programme, based on three sub-programmes of: i) Upstream, ii) Midstream and iii) Downstream.

The monitoring covered projects implemented during the first half of FY 2022/23 (1st July 2022-31st December 2022). The respective project outputs were reviewed under each sub-programme for the MEMD and the various Ministry, Department and Agency (MDA).

Monitoring involved analysis and tracking of inputs, activities, processes and outputs in the Ministerial Policy Statements, and annual and quarterly work plans, progress and performance reports of MDAs and Local Governments (LGs).

A total of six projects and commitments were reviewed. The four reviewed interventions translated into 91.5% coverage of` projected funding under the MPS allocation.

The selection of interventions to monitor was based on the following criteria:

1. Significant contribution to the programme objectives and national priorities.
2. Level of investment, projects and multiyear commitments that had a large volume of funds allocated were prioritized.

2.2 Approach and Sampling Methods

Both qualitative and quantitative methods were used in the monitoring exercise. Physical performance of projects, planned outputs and intermediate outcomes were assessed through monitoring a range of indicators. The progress reported was linked to the expenditure and physical performance.

A combination of random and purposive sampling was used in selecting outputs from the Ministerial Policy Statements (MPS) and progress reports of the respective Ministries, Departments and Agencies (MDAs).

2.3 Data Collection and Analysis

2.3.1 Data Collection

The monitoring team employed both primary and secondary data collection methods. Secondary data collection methods included;

i) Literature review from key policy documents including, Ministerial Policy Statements (MPS) FY 2022/23; National and Programme Budget Framework Papers, quarterly progress reports and work plans for the respective implementing agencies, Quarterly Performance Reports, Budget Speech, Public Investment Plans, Approved Estimates of Revenue and Expenditure, project reports, strategic plans, policy documents and Evaluation Reports for selected programmes/projects.

ii) Review and analysis of data from the Integrated Financial Management System (IFMS); Programme Budgeting System (PBS) and Quarterly Performance Reports.

Primary data collection methods on the other hand included:

iii) Consultations and key informant interviews with Institutional heads, project managers, Household Heads, and service beneficiaries at various implementation levels.

iv) Field visits to various districts, for primary data collection, observation and photography.

v) Call-backs in some cases were made to triangulate information.

2.3.2 Data Analysis

The data was analyzed using both qualitative and quantitative approaches. Qualitative data was examined and classified in terms of constructs, themes or patterns to explain events among the beneficiaries (interpretation analysis) and reflective analysis where the monitoring teams provided an objective interpretation of the field events. Quantitative data on the other hand was analyzed using advanced excel tools that aided interpretation.

Comparative analyses were done using percentages, averages, and cross tabulations of the outputs, intermediate outcome indicators and the overall scores. Performance of outputs was rated in percentages according to level of achievement against the annual targets. The sub-programme score was determined as the weighted aggregate of the average percentage ratings for the project outputs.

The overall programme performance is an average of individual sub-programme scores assessed. The performance of the programme and sub-programme was rated based on the criterion in **Table 2.1.** Based on the rating assigned, a BMAU color coded system was used to alert the policy makers and implementers on whether the outputs were achieved or had very good performance (green), or good performance (yellow), fair performance (light gold) and poor performance (red) to aid decision making.

Table 2.1: Assessment Guide to Measure Performance in FY 2022/23

Score	Performance Rating	Comment
90% and above		Very Good (Achieved at least 90% of outputs and outcomes)
70%-89%		Good (Achieved at least 70% of outputs and outcomes)
50%- 69%		Fair (Achieved at least 50% of outputs and outcomes)
49% and below		Poor (Achieved below 50% of outputs and outcomes)

Source: Author's Compilation

Ethical considerations

Entry meetings were undertaken with the Permanent Secretaries/and Accounting Officers or delegated Officers upon commencement of the monitoring exercises. Consent was sought from all respondents including programme or project beneficiaries. All information obtained during the budget monitoring exercise was treated with a high degree of confidentiality and only used in policy making and improving service delivery.

2. 4 Limitation

Lack of disaggregated financial information for some outputs.

2.5 Structure of the Report

The report is structured into four chapters. These are: Introduction; Methodology; Programme Performance; and Conclusion and Recommendations respectively.

CHAPTER 3: PROGRAMME PERFORMANCE

3.1 Overall Programme Performance

Financial performance

The annual approved budget for the Sustainable Development of Petroleum Resources (SDPR) for the FY 2022/23 is Ug shs 880.02bn, of which Ug shs 743.60bn (84.5%) was released and Ug shs 493.62bn (66.4%) spent by 31st December 2022. Equity financing of the Uganda National Oil Company (UNOC) took 76.3% of the annual budget in order for it to execute its mandate as the commercial arm of the Government in midstream oil and gas activities. Table 3.1 shows the financial performance of the SDPR Programme. The downstream sub-programme had poor absorption due to delayed procurement of land for storage terminal and cylinder kits.

Table 3.1: Semi-annual Financial Performance for the SDPR Programme for FY 2022/23

Sub Programme	Budget (Ug shs bn)	Release (Ug shs bn)	Expenditure (Ug shs bn)	Release as % of budget	Expenditure as % of release
Upstream	87.475	29.109	23.410	33.3	80.4
Midstream	771.583	707.732	468.785	91.7	66.2
Downstream	20.960	6.763	1.424	32.3	21.1
Total	**880.0179**	**743.604**	**493.619**	**84.5**	**66.4**

Source: ***Approved Budget Estimates, IFMS, Vote Work Plans, and Q4 Performance Reports***

Physical performance

The programme project performance was fair at 60.5%. The programme continued with petroleum exploration in the Albertine Graben and Moroto Kadam basin. However, no additional petroleum resources (billion barrels) were quantified. The country oil and gas infrastructure development to achieve the country's first oil was behind schedule. With the signing of the Final Investment Decision (FID) for the East African Crude Oil Pipeline (EACOP), Total Energies was undertaking resettlement of the persons affected by the pipeline. However, the construction of the EACOP had not commenced because financial closure was not yet attained. The promotion and dissemination of Liquefied Petroleum Gas (LPG) cylinders showed fair progress hampered mainly by funding constraints with only 27% of the cylinders distributed.

Table 3.2: Performance of the SDPR Programme by 31st December 2022

Sub-programme	Performance (%)	Remarks
Upstream	61.9	Fair performance
Midstream	66.5	Fair performance
Downstream	53.2	Fair performance
Overall programme performance	**60.5**	**Fair performance**

Source: Authors' Compilation

3.2 Upstream Sub-programme

The Upstream Sub-programme covers promotion, licensing, exploration, development and production of petroleum resources. It also monitors all petroleum upstream operations to ensure the exploitation of the petroleum resource in undertaken in an economically and environmentally conducive manner. The planned and assessed project in the sub-programme for FY 2022/23 was the Petroleum exploration and promotion of frontier basins (Project 1611).

Sub-programme performance

The sub-programme performance was fair at 61.9%. To promote investment, the second licensing round for exploration of two of the five blocks was concluded and preparations of the third licensing round were ongoing. Additionally, construction works on the upstream facilities under the Kingfisher and Tilenga Central Processing Facilities by the joint venture partners and the RAP implementation had also progressed.

Slow progress was registered for the further exploration through acquisition of geochemical and geophysical data in Moroto-Kadam, and Kyoga basin and design and equipping of infrastructure for the National Petroleum Data Repository.

Detailed projects' performance

3.2.1 Petroleum Exploration and Promotion of Frontier Basins (Project 1611)

Background

The available explored petroleum resources are planned for production for a period of 25 years. On that note, this project aims at exploring additional petroleum resources in the Albertine Graben (Buliisa, Hoima, Kikuube, and Nwoya), Moroto-Kadam and Kyoga basins to ensure sustainable production, revenue generation and facilitating monitoring activities to fast track the development of the Tilenga oil field (Buliisa, Nwoya) and Kingfisher (Kikuube) oil field.

The project commenced in FY 2020/21 for a period of five financial years and is scheduled to end in FY 2024/25 with a total of Ug shs 101.15bn.

Project Financial Information

Since inception of the project, a total of Ug shs 9.23bn was cumulatively disbursed by 31st December 2022 and Ug shs 7.39bn expended. The budget for FY2022/23 is Ug shs 16.07bn of which Ug shs 3.67bn (22.8%) was released and Ug shs 2.50bn (68.2%) spent.

Physical Performance

The planned outputs for the FY are:

a) Exploration of Albertine Graben, Moroto-Kadam and Kyoga basins undertaken
b) Local Content Development Fund developed
c) Development and completion of Tilenga and Kingfisher project to fast track the country's first oil
d) Completion of Resettlement Action Plan (RAP) for PAPs
e) Procurement of equipment for analysis of explored samples
f) Promotion of Investment in Oil and Gas

The project semi-annual performance for FY 2022/23 was fair at 61.9%. In order to promote more investment in oil and gas, the strategy and plan for the third licensing round were developed. Promotional materials for reconnaissance surveys by potential investors were also prepared.

a) Petroleum Exploration

The output exhibited poor performance as desk studies to evaluate the hydrocarbon potential for the Lake Kyoga and Hoima frontier basins were undertaken, however, the pre-survey community engagements in the Kyoga basin were not conducted due to unavailability of funding. Further exploration in the Moroto-Kadam was also not undertaken due to insecurity in the Karamoja area and cumulative progress stagnated at 76%. Preparatory security meetings were held in to coordinate with key stakeholder so that petroleum exploration activities were resumed.

b) Development of the Local Content Fund

The Local Content Development Fund Act was being developed to promote and enhance the financial capacity of local firms and population since the sector is capital intensive. The certificate of financial implication for the Act was submitted to the Ministry of Finance, Planning and Economic Development. The Local Content Policy regulations were also translated into various local languages. The delay to implement the local content fund was negatively impacting on the participation of local firms in oil and gas.

c) Development of the Tilenga and Kingfisher Projects

The project facilitates the MEMD to undertake monitoring activities of the development of the Tilenga and Kingfisher Development projects which are key to the country's first oil. The target was to complete civil works for the enabling infrastructure (industrial area site preparation, access roads, well pads, worker's camps, construction support bases) for the Central Processing Facilities (CPFs) in Tilenga and Kingfisher areas.

The civil works for the supporting infrastructure required for the CPFs was at 82% and 66% for Tilenga and Kingfisher areas respectively by 31st December 2022.The Chinese National Offshore Oil Corporation (CNOOC) which operates the Kingfisher development area commenced oil drilling at well pad 2 on January 24th 2023. The works on other well pad and support facilities in the area to support the planned oil production were ongoing and contractors were undertaking works on the Kingfisher Central Processing Facility. Preparation works on well pad 3 were completed, while progress for the well pad 1 was at 37%. However, works at well pad 4 had not yet commenced.

The Kingfisher oil wells are envisaged to produce an average of 40,000 barrels per day using these four well pads.

An operational drilling rig at well pad 2 in Kingfisher area

In the Tilenga area, Total Energies EP Uganda (TEPU) was assembling a drilling rig at Job Rii 5 well pad in Nwoya District with progress at 35% and drilling expected to commence in April 2023.

Additional two drilling rigs were expected before the end of the FY for use for the 21 well pads in Buliisa District. The Tilenga oil wells are expected to produce 190,000 barrels per day at peak production.

Ongoing construction of workers housing facilities at the Tilenga CPF site

d) Completion of Resettlement of Project Affected Persons

To ensure development of oil and gas in a responsible and sustainable manner, CNOOC and Total Energies were undertaking Resettlement Action Plans (RAP) of persons displaced by works with RAP 1 covering the Central Processing Facilities while RAP 2-5 covers the Tilenga field access roads, well pads, feeder pipelines and flow lines. Under Tilenga project, cash compensations were at 98%. Under RAP 1, 33 resettlement houses were completed and under RAP 2-5, a total of 77 resettlement houses had been completed and works on 46 houses was ongoing whereas construction of 81 houses was yet to commence.

The RAP for Kingfisher was nearing completion with most communities compensated. The joint venture partner should therefore quicken the completion of resettlement infrastructure for the remaining affected Project Affected Persons.

Completed resettlement houses for PAPs displaced by Tilenga flow lines in Kirama village, Buliisa district

e) Acquisition of Equipment

The Petroleum Exploration and Production Department (PEPD) acquired and installed the Hawk analyzer to aid in analysis of samples collected from the exploration activities. Procurement of the office furniture and renewal of specialized software licenses for PETREL and GEOSOFT was yet to be undertaken due to unavailability of funds. The delay to renew the licenses limits information that can be availed to enable the exploitation of the best opportunities for utilizing the country's petroleum potential.

To equip the National Data Repository for petroleum data analysis, the Terms of Reference (ToRs) for procuring the consultant to design, develop and install the integrated data management system were ongoing but behind schedule.

f) Promotion of Investment in Oil and Gas

The MEMD was also in the preparatory phase of the third licensing round in order to kick start further oil and gas exploration in the country. Under the second licensing round, the five (5) blocks (Aviv, Omuka, Ngaji, Kasurubani, and Turaco) the production licenses for two of the five blocks were awarded to UNOC and DGR Global Limited for Kasuruban and Turaco blocks respectively.

Project Risks

There has been delay in conclusion of designs for the National Data Repository due to funding constraints. This will affect the efficiency of sample analysis thus leading to delay in investment due to limited information of petroleum reserves. The insecurity in the Karamoja is bound to negatively affect the acquisition of data exploration in the Moroto-Kadam basin resulting in no new discovery of petroleum reserves in the region in the first half of the FY. The semi-annual performance is summarized in table 3.3.

Table 3.3: The Petroleum Exploration and Promotion of Frontier Basins project performance by 31st December 2022

Project	Outputs Performance							Remarks
	Output	Financial Performance			Physical Performance			
		Annual Budget (Ug shs bn)	% of budget received	% of budget spent	Annual Target	Cum. Achieved Quantity	Physical performance Score (%)	
Project 1611: Petroleum Exploration and Promotion of Frontier Basins	Exploration of Albertine Graben, Moroto Kadam and Kyoga basins	7.20	23.9	82.2	100	12.00	50.13	Poor performance
	Development of Local Content Fund, Tilenga and Kingfisher Projects	5.07	29.4	64.1	100	22.00	74.73	Good performance
	Promotion of the Country's Petroleum potential	2.00	18.8	31.8	100	15.00	80.00	Good performance
	Acquisition of Equipment	1.80	4.2	12.7	100	2.20	52.80	Fair performance
	Total	**16.07**	**22.8**	**68.2**				
	Overall sub-programme Performance						**64.4**	**Physical performance**

Source: MEMD Q2 Reports, Field Findings

Challenges

1. Delayed procurement by MEMD affected infrastructure development.
2. Lack of a credit facility to support local suppliers continues to hamper their effectiveness in participating in oil and gas contracts since the sector is capital intensive.

Recommendations

1. The MEMD should fast-track procurement of consultants to undertake designs and development of petroleum data centers.
2. The MEMD and MFPED should therefore fast-track the operationalization of the Local Content Fund to enhance participation of national content in oil and gas so that they can be firmly established by the anticipated 2025 commencement of oil production.

Sub-programme conclusion

The sub-programme performance was fair at 61.9%. Petroleum exploration continued in some parts of the Albertine Graben, but the Moroto-Kadam basin exploration was affected by insecurity in the Karamoja region. Development of the Central Processing Facilities (CPFs) showed good progress with most civil earthworks completed, while RAP implementation of the Kingfisher and Tilenga areas was nearing completion pending completion of resettlement houses. Promotion of investment in the established reserves was ongoing with the second licensing round concluded and third round underway. However, the MEMD was grappling with delaying procurement which affected equipping of the data repository.

3.3 Midstream Sub-programme

The Midstream Sub-programme consists of activities pertaining to the development and operation of midstream petroleum infrastructure including transportation, refining of oil and conversion of gas into finished products. The sub-programme objectives are to enhance local capacity, and promote investment in oil and gas.

The planned projects and commitments were:

i. Project 1352: Midstream Infrastructure Project
ii. Capitalization of Uganda National Oil Company

Sub-programme performance

The sub-programme project performance was fair at 66.5% (table 3.4). The Front End Engineering Design (FEED) for the refinery and pipelines were completed and the Final Investment Decision (FID) for the East African Crude Oil Pipeline (EACOP) signed. The resettlement of communities affected by the pipelines showed fair progress. The refinery FID is expected in June 2023.

Table 3.4: Summary of projects performance under the Midstream Sub-programme by 31st December 2022

No	Project	Performance Rating (%)	Remarks
1	Project 1352: Midstream Infrastructure Project	55.4	Fair performance
2	Capitalization of Uganda National Oil Company	67.2	Fair performance
	Overall sub-programme performance	**66.5**	**Fair performance**

Source: IFMS, Vote Progress Reports and Author Analysis

Detailed projects performance

3.3.1 Midstream Infrastructure Project (Project 1352)

Background

The project focuses on undertaking deliberate approaches to develop and implement the framework under which bulk transportation and storage infrastructure will be developed and operated as the country moves forward into the development phase.

The main objective of the project is to establish processes and build human resources and institutional capacity for the planning, development and operation of bulk petroleum EACOP and product pipelines and storage infrastructure to enable the realization of the country's plans for commercialization of its oil and gas resources.

The project commenced in FY 2015/16 and was scheduled to close in FY 2019/20, but was later revised to end this FY 2022/23. The project is implemented by MEMD under the Midstream Department. The key project outputs and achievements are given in table 3.6.

Financial Performance

The total project cost is Ug shs 570bn. The overall cumulative disbursement of the project is Ug shs 83.19bn by 31st December 2022 with Ug shs 72.66bn (87.3%) spent. The budget for FY 2022/23 is Ug shs 47bn, of which Ug shs 10bn was released and absorption was poor at Ug shs 4.59bn (45.9%) due to the slow pace of RAP implementation.

Physical Performance

The planned outputs under the project are:

a) Construction of the refinery and EACOP pipeline
b) Compensation for the EACOP, products pipeline and refinery completed
c) Designs for regional office in Hoima completed, land and designs for GoU EACOP offices in Tanzania acquired.
d) Completion of feasibility study for the natural gas pipeline

The midstream infrastructure project showed fair performance at 55.4%.

a) Refinery construction

The refinery post FEED activities by the lead investor, M/s Albertine Graben Refinery Consortium (AGRC) were ongoing. The investor hoped to conclude the Certified Verification Agent (CVA) incorporation of the refinery, and securing financing from both the debt and equity investors with the refinery FID set to be concluded by June 2023.

The progress for the refinery RAP was poor. The refinery resettlement infrastructure (schools, churches, police posts, market stalls and community centre) were completed. The refinery RAP was also nearing completion with 98.3% of the PAPs paid and transfer of land titles undertaken. However, the MEMD was grappling with absentee landlords who had stagnated the RAP progress at 98.3% since FY 2021/22.

b) East African Crude Oil Pipeline construction

The FEED studies for EACOP and product pipelines were concluded and the pipelines' RAP implementation ongoing but showed slow progress due to absentee landlords and rejection of land valuation rated by the PAPs. The EACOP RAP implemented by Total Energies was at 78% with land titling at 30%, while the product pipeline RAP implemented by MEMD under this project was at 45% being affected by low release for the activity.

Corridor harmonization for activities for the EACOP and products pipeline were undertaken to establish any existing overlaps and avoid double payments and a total of 85 PAPs were found to be affected by both pipelines.

Additionally, the geotechnical and hydrological feasibility studies for the resettlement and social infrastructure for the products pipeline and storage terminal PAPs were completed but construction had not commenced as planned due to unavailability of funds. The construction works on EACOP resettlement houses commenced in March 2022 in the districts of Kikuube, Kakumiro, Kyankwanzi, and Mubende, Gomba, Sembabule, Lwengo, Rakai and Kyotera.

The project also financed workshop and training to build technical and financial capacity of staff and different communities affected by the midstream infrastructure projects such as the refinery, EACOP and product pipelines.

c) Development of regional Offices and the natural gas pipeline

In a bid to decentralize midstream functions, the procurement of land for the GoU EACOP offices in Tanzania was ongoing, while the designs for Hoima regional office were planned to commence in the second half of FY due to funding constraints. Development of the natural gas pipeline from Tanzania to Uganda to support iron ore mineral processing showed poor progress with procurement rules and bilateral agreements negotiations ongoing between the host nations.

Project Risks

The target to have product pipeline compensation completed in this FY 2022/23 might not be met due to funding constraints. The release for compensation by 31st December 2022 stood at 20.9%. The resettlement infrastructure works were pending. Additionally, this delayed compensation was resulting into rejection of compensation rates by the PAPs. The MEMD and MFPED should prioritize funding of the pipeline compensation as the sector moves into the development phase.

Implementation Challenges

1. The implementation of the RAP was behind schedule due to PAPs rejecting disclosed compensation packages and the Ebola outbreak which affected field activities in Mubende and Kasanda districts.
2. The funding constraints were leading to delayed construction of resettlement houses for the products pipeline.

Recommendation

The MEMD and MFPED should ensure adequate funding is allocated to undertake compensation for product pipeline.

3.3.2 Capitalization of UNOC

Background

This intervention is aimed at enabling UNOC to execute its mandate as an investment arm of Government in oil and gas industry through: state participation in production licenses; propose new petroleum exploration venture; develop, own and operate oil refinery, oil pipelines, storage terminals and other related facilities.

The objective is provision of UNOC with required financing of 15% shareholding in the East African Crude Oil Pipeline in order to carry out its operations including: funding of works on the EACOP, Environment Social Impact Assessment (ESIA) for EACOP, oil refinery pre-FID activities and other supporting activities in the oil and gas sector.

The targets for the FY are to complete UNOC's 15% equity financing in EACOP and commencement of EACOP construction.

Financial Performance

The overall performance was fair with cumulative contributions towards UNOC EACOP equity financing at 79.7%. The total budget for UNOC's EACOP equity contribution is US$ 308M (Ug shs 1.153 trillion). In the first half of the FY 2022/23, an additional US$115.4M (Ug shs 438.53bn) was disbursed bringing the cumulative equity to US$245.4M (Ug shs 919.53bn). The outstanding balance of US$ 62.6M (Ug shs 237.87bn) is expected in quarters 3 and 4 of this FY. The conclusion of the equity financing need to be fast tracked since this will enable UNOC to execute its mandate as a financial arm of the Government in oil and gas contracts. The construction licenses for the EACOP was granted but the procurement of contractors to undertake EACOP construction had not begun pending financial closure (debt financing).

The semi-annual performance for the Midstream Sub-programme is summarized in table 3.5.

Table 3.5: The Midstream Sub-programme Project Performance by 31st December 2022

		Annual Budget (Ug shs bn)	% of budget received	% of budget spent	Annual Target	Cum. Achieved Quantity	Weighted Physical Performance (%)	Remarks
Project 1352: Midstream infrastructure Project	Compensation for products pipeline and refinery undertaken. Refinery construction commenced.	41.2	20.9	46	100	12.00	3.08	Fair performance
	EACOP project construction commenced and EACOP RAP supervised. Regional offices constructed	5.8	23.6	47	100	10.00	0.32	Fair performance

		Annual Budget (Ug shs bn)	% of budget received	% of budget spent	Annual Target	Cum. Achieved Quantity	Weighted Physical Performance (%)	Remarks
Capitalization of UNOC	UNOC Capitalized (contribution to 15% equity for EACOP)	720.4	96.7	66	100	65.00	63.1	Fair performance
	Total	**767.4**	**92.0**	**66.2**			**66.5**	**Overall performance**

Source: MEMD Q2 Reports, Field Findings

Sub-programme conclusion

The sub-programme showed fair performance (66.5%) largely due to disbursements for capitalization of UNOC. With the conclusion of FEED studies for the refinery and pipelines, the FID for EACOP was signed. The EACOP construction had not started because financial closure had not been attained. The refinery RAP was also nearing completion whereas pipeline compensation showed fair progress. The Government contribution to UNOC equity financing was at 78% cumulative progress. The MEMD needs to fast track the conclusion of the compensation of persons affected by the pipeline in order for the development phase of the midstream petroleum infrastructure to run smoothly.

3.4: Downstream Sub-programme

The Downstream Sub-programme deals with distribution, marketing and sale of refined petroleum products within the country. This sub-programme contribute to the programme objective of improving security of supply of refined petroleum products. The planned projects and commitments that were monitored under the downstream sub-programme are:

i. Liquefied Petroleum Gas (LPG) Supply and Infrastructure (Project 1610)
ii. Restocking and development of Jinja Storage terminal
iii. Petroleum retail outlets licensed and monitored for compliance

Sub-programme performance

The performance was fair at 53.2%. Dissemination of cylinder kits continued to promote usage of LPG gas while the development of other LPG infrastructure storage terminals showed fair progress with land for Mukono storage terminal procured. However, the acquisition of cylinder kits was affected by procurement delays and funding constraints which limited the number of kits that could be procured and disseminated. Additionally, the restocking of Jinja Storage Terminal (JST) was low with 5% utilization of the facility against the targeted 30% and UNOC was in search of partners to scale up bulk trading. The MEMD also continued to issue and monitor retail outlets for petroleum quality in the downstream chain.

Detailed projects performance

3.4.1 Liquefied Petroleum Gas/LPG Supply and Infrastructure (Project 1610)

Background

It is estimated that 94% of the households in the country use biomass in form of firewood or charcoal as their cooking energy source, 0.8% use LPG and the rest predominantly make-do with either kerosene or electricity. The majority of households using biomass for fuel exposes the country to devastating effects of deforestation and environmental degradation.

The Government of Uganda through MEMD launched this project with the aim of promoting the use of LPG as a cleaner and more efficient fuel alternative to biomass to counteract the negative impact on environment. The initiative targets procuring promotional LPG cylinder kits which are distributed to beneficiaries at a cost of Ug shs 100,000 (refilling cost) so that acquisition can be subsidized for new users.

The project target is to procure and disseminate a total of over 100,000 promotional LPG cylinder kits over the five years. The distribution is undertaken in partnership with private partners: Shell, Total Energies and Stabex. The project commenced in FY 2020/21 and is scheduled to end in FY 2024/25 with an overall budget of Ug shs 900bn and implemented solely by Petroleum Supply department in the MEMD.

Financial Performance

The cumulative disbursements to date since project inception stood at Ug shs 11.68bn of which Ug shs 5.58bn was spent. The poor absorption was attributed to procurement delays in FY 2020/21 and FY 2021/22. The budget for FY 2022/23 is Ug shs 19.95bn with release at Ug shs 6.5bn (32.6%) and absorption at Ug shs 1.21bn (18.6%).

Physical Performance

The project semi-annual performance was fair at 62.8%. A total of 4,000 cylinder kits were procured in FY 2022/23. Of these, 2,000 kits were distributed and 2,000 awaited distribution. Thus the semi-annual target of disseminating 14,402 cylinders was not met due to delay in procurement.

Overall since project commencement in FY 2020/21, a total of 9,653 cylinder kits had been procured and disseminated, failing to meet the target of 37,434 kits. This was because only Ug shs 5.58bn of the budgeted Ug shs 16.75bn was disbursed for the activity.

The feasibility study report to guide in the development of LPG infrastructure was completed in FY 2021/22 and recommended the need for two storage terminals in Mukono and Wakiso. By end of December 2022, procurement of land for the Mukono terminal was ongoing but awaited completion of land documentation by MEMD thus the project failed to absorb the Ug shs 4.3bn released for payment of land.

Stakeholder engagements were not undertaken and were deferred pending availability of funds for the activity. However, awareness campaigns have not been extensively carried out over the past three financial years due to funding constraints and therefore affecting uptake in some cases.

Project Risks

The MEMD procurement delays and funding constraints faced by the project have led to limited impact on the use of LPG by the communities, with just 9,653 of the targeted 37,434 (25.8%) cylinder kits distributed. The MEMD should therefore prioritize the procurement and dissemination of the cylinder kits.

Implementation Challenges

1. The low MEMD budget allocation and release negatively affected achievement of outputs such as the number of cylinders disseminated.
2. Delays in procurement hindered setting up of other LPG infrastructure, such as land acquisition for the storage terminals.

Recommendations

1. The MEMD should prioritize budget funding to the project.
2. The MEMD should fast track land acquisition and development of LPG infrastructure storage terminal.

3.4.2 Restocking and development of Jinja Storage terminal

The output aims at overseeing the rehabilitation, operation and management of the Jinja Storage Terminal (JST) to oil industry standards to ensure security of petroleum supply. The terminal has a capacity of 30 million[1] liters and is managed by UNOC. The target was restocking and utilization at 30% (nine million liters) of the storage facility and construction of the oil jetty and pipeline connecting JST to Lake Victoria.

Performance

The performance was poor. Only 5% (1.5 million liters) of the terminal was utilized failing to meet the 30% target. The contract for One Petroleum Ltd, the joint venture was terminated and the terminal handed over to UNOC as the operator on 23rd December 2022. As a result of the funding gap created, UNOC was engaging oil marketing companies, selected banks (ABSA Bank, Citibank and Standard Chartered Bank) and MFPED for financing support to scale up bulk trading. To that effect, two transactions were completed with Total Energies and Vivo Energy marketing companies for 0.5 and 1 million liters respectively which is a still low volume compared to the capacity of the facility.

UNOC was also exploring how to better manage the transportation of petroleum products by development of an oil jetty pipeline from the terminal to Lake Victoria. The pipeline survey and design were completed but a funding partner had not yet been acquired.

UNOC was also in the process of developing the Kampala Storage Terminal (KST) with a 320-million-liter capacity at Nsujjumpolwe Village, Kiringente Sub-county, Mpigi District. A total of 300 acres were acquired and facility designs and search for joint venture partner to develop the terminal were ongoing.

3.4.3 Petroleum retail outlets licensed and monitored for compliance

The output aims at regulating the quality of petroleum products on the market through monitoring and enforcement of standards for regulation. This is implemented by the Petroleum Supply Department in the MEMD. The target is to monitor and carry out petroleum quality inspection in 300 and 240 retail outlets respectively as well as enforcement of supply standards in a total of 150 outlets.

Financial Performance

The total budget for FY 2022/23 for the output is Ug shs 0.757bn (23.1%), of which Ug shs 0.175bn was released and Ug shs 0.148bn (84.5%) spent by 31st December 2022.

[1] 20 million diesel and 10 million petrol

Physical Performance

The performance was fair. A total of 179 of the targeted 300 retail outlets were monitored in the districts of Mukono, Buikwe, Jinja, Kamuli, Iganga, Mbale, Tororo, Busia, Namutumba and Bugiri. A total of 95 quality inspections were undertaken with eight (8.4%) outlets found to be noncompliant with standards and regulations. Enforcement and monitoring activities were hampered by the limited funding for the activities.

The MEMD issued licenses to more 87 retail outlets in the FY (33 petroleum construction permits, 26 completion certificates, 28 petroleum operating licenses) for downstream trading with a total of Ug shs 203 million Non-Tax Revenue (NTR) collected from the licenses and permits.

Overall, the non-compliance levels form the conducted quality inspections were at 8.4% up from 0.7% in FY 2021/22. The MEMD should therefore step up enforcement mechanisms to ensure quality of supply. The semi-annual performance for the downstream sub-programme is summarized in table 3.6.

Table 3.6: The Downstream Sub-programme Project Performance by 31st December 2022

Project /Department	Output	Annual Budget (Ug shs bn)	% of budget received	% of budget spent	Annual Target	Cum. Achieved Quantity	Physical performance Score (%)	Weighted Physical Performance (%)	Remarks
Project 1610: Liquefied Petroleum Gas (LPG) Supply and Infrastructure	Infrastructure Development and Management (28,804 cylinder kits procured and 20 acres of land acquired)	18.550	35.0	18.6	100	22.0	62.78	53.21	Fair performance
Downstream Department	Downstream petroleum activities licensed and monitored	0.757	23.1	84.6	100	35.0	100.00	3.46	Fair performance
UNOC	Jinja Storage Terminal restocked and oil jetty at JST constructed	2.418	49.7	100.0	30	5.0	33.51	3.70	Poor performance
	Storage terminals developed	0.163	33.7	70.9	100	10.0	29.64	0.22	Poor performance
	Total	**21.888**	**36.2**	**32.8**				**53.21**	**Physical performance**

Source: MEMD Q2 Reports, Field Findings

Sub-programme conclusion

The Downstream Sub-programme performance was fair at 53.2% largely due to delayed procurement of cylinder kits for dissemination to beneficiaries with only 25.8% acquired. Restocking of the Jinja Storage Terminal was not funded and this left stock levels at 5% which was below the recommended safety levels and thus the need for more financing support to UNOC. The monitoring and surveillance of the finished petroleum products at the retail stations by MEMD and UNBS and a deterioration in quality at half year FY2022/23 was recorded countrywide.

Overall Analysis of Programme Value Chain

The Upstream Sub-programme showed good progress towards the country's road to the first oil with construction works on the central processing facilities ongoing. Three drilling rigs were also acquired and one of them was already in operation. However further exploration of reserves saw not much progress. With the road to the country's oil drilling set, the Midstream Sub-programme to support development of pipelines and refinery to transport and refine oil from these upstream facilities was behind schedule. None of the joint venture partners had secured financing for developing the refinery and EACOP although the compensation of affected communities had progressed.

The refinery is estimated at 60,000 barrels per day to refine oil for transportation through the multi products pipeline to Buloba in Wakiso District. Additionally, with the peak oil production from upstream facilities estimated at 240,000 barrels per day and EACOP at 242,000 barrels per day, the slow progress of development of the EACOP pipeline is putting the country's anticipated revenue benefits from oil production at risk.

The Downstream Sub-programme had poor progress as development of storage infrastructure for the petroleum products in Kiringente in Mpigi District and Buloba, Wakiso District did not progress because funding partners had not been secured. The Jinja Storage Terminal did not meet the target for stock levels to ensure supply of petroleum products and the level of compliance for the retail outlets was at 91.6% from 99.3% in FY 2021/22.

It is recommended that the government and joint venture partners should fast-track completion of the midstream and downstream infrastructure to absorb the anticipated oil capacity from the oil production wells being developed in the Albertine Graben.

CHAPTER 4: CONCLUSION AND RECOMMENDATIONS

Conclusion

The overall programme performance was fair at 60.5% and preparations for the production phase of the oil and gas sector continue. Some of the key milestones reached by half year included: conclusion of the second licensing round, signing of the Host Government Agreements (HGA) and Inter-Governmental Agreements (IGA) for development of the EACOP.

Preparatory works such as those for the enabling infrastructure (industrial area site preparation, access roads, well pads, camps, construction support bases) were at 82% and 66% for Tilenga and Kingfisher areas respectively by 31st December 2022. A key milestone reached with the preparatory works was the delivery and assembly of the drill rig for the Kingfisher oil field.

Although marred with several challenges, Total Energies under the EACOP continued to undertake resettlement activities for the crude pipeline and its associated infrastructure with progress of works at 78% at half year. The progress of resettlement activities on the products pipeline (from Kabaale to Buloba) implemented by MEMD was lagging behind at 45%.

Recommendations

1. The MEMD and PAU should be more vigilant and thorough in monitoring and supervising the ongoing compensation process for PAPs to ensure the process is undertaken fairly.
2. The MFPED should prioritize provision of adequate resources to the Oil and Gas Sector to avoid further delays in the production of oil.

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