

## AFRICA RISK CONSULTING

### Uganda Monthly Briefing March 2019

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#### Uganda Summary 15 March 2019

*The ruling National Resistance Movement (NRM) confirms President Yoweri Museveni (1986-present) as its candidate in Uganda's 2021 elections. Uganda-Rwanda diplomatic tensions escalate with the closing of borders between the two countries. South Africa-based telecommunications company MTN Group disputes the Ugandan government's accusations that it understated revenues and evaded paying tax. The energy and mineral development ministry approves preliminary designs for the Hoima oil refinery, although delays continue with constructing the East African Crude Oil Pipeline.*

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#### NRM endorses Museveni for re-election

Uganda's ruling party, the **National Resistance Movement (NRM)**, has confirmed President **Yoweri Museveni** (1986-present) as its candidate in the 2021 presidential election.<sup>1</sup> If Museveni wins a sixth term in 2021, this could extend his term in office to over 40 years.<sup>2</sup> The endorsement, which the party issued on 18 February during its five-day committee meeting, is one of a series of developments that point towards President Museveni strategising for a life presidency.<sup>3</sup> In January 2018 Museveni signed into law the **Constitution Amendment (No.2) Bill 2017**, the so-called **Age Limit Bill** (see *ARC Briefing Uganda January 2018*).<sup>4</sup> Parliament passed the Age Limit Bill in December 2017, which removed a constitutional provision that capped the president's age at 75, thus allowing President Museveni, now 74, to be eligible to stand in subsequent elections.<sup>5</sup> This followed a constitutional amendment in 2005, in which parliament voted to remove the presidential two-term limit, thus paving way for Museveni to stand for re-election in 2006.<sup>6</sup>

President Museveni's extended stay in power has attracted growing criticism in Uganda and abroad, mainly because of his authoritarian style of governance, attacks on opposition activists, public sector corruption, and a high unemployment rate, especially among the country's youth. This partly explains the growing support for opposition legislator and musician, **Robert Kyagulanyi**, aka **Bobi Wine**, whose **People Power** movement has rapidly become a formidable anti-government platform.<sup>7</sup> However, Museveni's source of power is the military, and it is unlikely that an electoral loss would remove him from power.<sup>8</sup>

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<sup>1</sup> Reuters, 20 Feb 2019.

<sup>2</sup> Reuters, 20 Feb 2019.

<sup>3</sup> Reuters, 20 Feb 2019.

<sup>4</sup> The Independent, 2 Jan 2018.

<sup>5</sup> Reuters, 20 Feb 2019.

<sup>6</sup> Reuters, 20 Feb 2019.

<sup>7</sup> France 24, 20 Feb 2019.

<sup>8</sup> Source, analyst, London

## Tensions between Uganda and Rwanda escalate

Escalating political tensions between the governments of **Rwanda** and Uganda resulted in the closure of borders between the two countries on 28 February.<sup>9</sup> The tension is causing unease in the **East African Community (EAC)**, as belligerent rhetoric between President Yoweri Museveni and Rwanda's President **Paul Kagame** (2000-present) shows no sign of abating.<sup>10</sup> Immigration officials at the **Gatuna** border in Rwanda blocked haulage trucks from Uganda from crossing into Rwanda on 6 March, and issued an official statement that this was because of construction at the border.<sup>11</sup> However, the statement did not explain why the Rwanda-bound trucks were blocked at other border crossings between the two countries.<sup>12</sup> The closure interrupted the flow of goods between the two landlocked countries, as well as neighbouring countries such as the **Democratic Republic of the Congo** and **Burundi**.<sup>13</sup>

Although the border standoff had ended by 6 March, diplomatic tensions between the two nations continue.<sup>14</sup> Rwanda's foreign minister, **Richard Sezibera**, accused the Ugandan government of harbouring armed groups plotting to overthrow President Kagame's government.<sup>15</sup> The Rwandan government is particularly concerned about the activities of the **Rwanda National Congress (RNC)**, an opposition group that it argues is making preparations to invade Rwanda from Uganda.<sup>16</sup> Sezibera also claimed that the government of Uganda has been arresting, torturing and deporting Rwandese citizens without cause, and the number of Rwandese deportees from Uganda has grown to approximately 200 in the last two years.<sup>17</sup> However, Uganda's foreign minister, **Sam Kutesa**, dismissed the claims, arguing that the Ugandan government would not harbour groups whose activities threaten its neighbours.<sup>18</sup>

Presidents Kagame and Museveni have joined the fray, suggesting they are ready to engage in open conflict if necessary. In his address to the annual national leadership retreat for the **Rwanda Defence Forces (RDF)** on 8 March, Kagame commented on Rwanda's poor relations with Uganda:

*"You can attempt to destabilise our country, you can do harm, you can shoot me with a gun and kill me. But there is one thing that is impossible, no one can bring me to my knees..."*<sup>19</sup>

President Museveni issued similarly belligerent rhetoric on 9 March during a ceremony to commission five factories in **Mukono District**:

*"Those who want to destabilise our country do not know our capacity. It is very big. Once we mobilise, you can[not] survive."*<sup>20</sup>

Analysts say the tensions are unlikely to escalate into war, because of regional and

<sup>9</sup> BBC, 9 Mar 2019.

<sup>10</sup> BBC, 9 Mar 2019.

<sup>11</sup> BBC, 9 Mar 2019.

<sup>12</sup> BBC, 9 Mar 2019.

<sup>13</sup> Deutsche Welle, 6 Mar 2019.

<sup>14</sup> Deutsche Welle, 6 Mar 2019.

<sup>15</sup> Deutsche Welle, 6 Mar 2019.

<sup>16</sup> Deutsche Welle, 6 Mar 2019.

<sup>17</sup> Deutsche Welle, 6 Mar 2019.

<sup>18</sup> Deutsche Welle, 6 Mar 2019.

<sup>19</sup> President Kagame, quoted in The New Times, 9 Mar 2019.

<sup>20</sup> President Yoweri Museveni, quoted in Nile Post, 9 Mar 2019.

international diplomatic interventions currently underway:

*“This diplomatic tiff has been simmering since Museveni and Kagame fought a proxy war in the DRC in 1998... They are erstwhile allies, who helped each other get into power through armed struggle, and so they know each other very well. But one of the main causes of the tensions is Museveni’s attitude; he regards Kagame as his junior, so he cannot engage with him as an equal. This undermines diplomatic efforts to get the two leaders to communicate with trust. Kagame feels considerably threatened by armed groups mobilising in the DRC and in Uganda, and Museveni is not willing to permanently allay those fears. Outright war remains unlikely, but the tensions may not end soon.”<sup>21</sup>*

The **United States (US)** assistant secretary for **African** affairs, **Tibor Nagy**, travelled to Uganda and Rwanda to hold meetings with the leaders of both countries on the deteriorating relations.<sup>22</sup> Nagy said on 9 March that the US would not intervene directly, but would allow the two leaders to resolve their differences themselves.<sup>23</sup> The tensions between Rwanda and Uganda reportedly explain the arrest and detention of former inspector general of police, General **Kale Kayihura** in June 2018. Kayihura faced allegations of helping Rwandese agents abduct Uganda-based Rwandese dissidents and deport them to Rwanda.<sup>24</sup>

The tensions between Rwanda and Uganda emanate from mutual distrust. Both leaders entered into office and have sustained their rule largely through military force.<sup>25</sup> Although the tensions are unlikely to degenerate into open conflict, they are likely to continue in the medium to long term, given that both leaders have not shown a willingness to directly engage to resolve their differences, or otherwise build mutual trust.

### **MTN in tax dispute with Uganda government**

The Ugandan government has accused **South Africa**-based telecommunications company, **MTN Uganda**, of understating its sales figures and thus evading taxes.<sup>26</sup> The accusations are likely to intensify existing tensions between MTN and the government, which deported several high-ranking MTN executives in January and February (see *ARC Briefing Uganda February 2019*), accusing MTN of spying on behalf of the government of Rwanda.<sup>27</sup> Ugandan government spokesman **Owono Opondo** indicated that the government had acquired the technical capacity to monitor Uganda-based telecommunications companies’ transactions for tax and reporting purposes, and discovered that the company was under-reporting its sales figures:

*“It is a result of this technical capacity that MTN and its officials have run afoul. [We found] that in some instances, they have not been making full declarations of transactions, which constitutes undermining Uganda’s economy...”<sup>28</sup>*

MTN has refuted the allegations, saying that it complied with Uganda’s regulations governing revenue reporting and tax payment:

*“MTN revenues are independently audited and we remain firmly of the view that all*

<sup>21</sup> Source, analyst, Toronto

<sup>22</sup> Daily Monitor, 10 Mar 2019.

<sup>23</sup> Daily Monitor, 10 Mar 2019.

<sup>24</sup> Deutsche Welle, 6 Mar 2019

<sup>25</sup> Source, analyst, London

<sup>26</sup> Africa News, 22 Feb 2019.

<sup>27</sup> Reuters, 20 Feb 2019.

<sup>28</sup> Government spokesman, Owono Opondo quoted in Africa News, 22 Feb 2019.

*revenues have been correctly accounted for, and we are compliant on all tax matters. Where queries are raised during tax assessments... MTN works with the relevant authorities to resolve the queries according to the law.”<sup>29</sup>*

In addition to accusations of under-stating its revenue, MTN faces allegations of providing access to unnamed persons, suspected to be Rwandese intelligence officials, to MTN Uganda’s systems for the purposes of spying on Ugandan senior government officials and suspected Rwandese dissidents operating in Uganda.<sup>30</sup> This resulted in the deportation of three senior MTN executives and CEO **Wim Vanhellepute** (see *ARC Briefing Uganda February 2019*).<sup>31</sup> The government issued vague statements justifying the deportations.<sup>32</sup>

MTN has been operating in Uganda since 1998, after securing an operating licence that expired in October 2018.<sup>33</sup> With 10 million subscribers, it is the largest telecommunications company in Uganda.<sup>34</sup> The government’s heavy-handed approach to dealing with MTN may discourage prospective investors from doing business in Uganda, which largely relies on externally sourced investment.<sup>35</sup> The government’s actions also call into question the level of personal security that expatriate workers enjoy in Uganda, given its failure to follow due process in conducting the deportations.<sup>36</sup>

### Government approves designs for oil refinery, as delays beset pipeline

Uganda’s energy and mineral development ministry approved the plans for the **Front End Engineering Design (FEED)** and engineering, procurement, and construction (EPC) plans for Uganda’s oil refinery on 12 March.<sup>37</sup> This is a crucial milestone in the development of Uganda’s oil infrastructure.<sup>38</sup> The **Albertine Graben Refinery Consortium (AGRC)**, which will construct the refinery in the western Uganda district of **Hoima**, had awarded **Italy**-based **Saipem SPA** the \$68m FEED and EDC contract in August.<sup>39</sup> The government’s approval of the plans will allow the AGRC to proceed with preliminary activities before the final investment decision (FID) on the refinery project, scheduled for the end of 2020.<sup>40</sup> AGRC is responsible for funding all the pre-FID activities, and the eventual construction and operation of the refinery.<sup>41</sup>

The energy and mineral development ministry signed a deal with AGRC in April 2018 for the construction of the refinery, which will produce 60,000 barrels per day and cost \$3-4 billion to construct.<sup>42</sup> AGRC comprises **Mauritius**-based **YAATRA Africa LLC** and **Lionworks Group**; **Baker Hughes General Electric’s** Italy-based subsidiary, **Nuovo Pignone International SRL**; and Italy-based Saipem SPA.<sup>43</sup> The refinery is scheduled to begin

<sup>29</sup> Unnamed MTN official, quoted in Reuters, 20 Feb 2019.

<sup>30</sup> Africa News, 22 Feb 2019.

<sup>31</sup> Africa News, 22 Feb 2019.

<sup>32</sup> Africa News, 22 Feb 2019.

<sup>33</sup> Africa News, 22 Feb 2019.

<sup>34</sup> Africa News, 22 Feb 2019.

<sup>35</sup> Source, analyst, London

<sup>36</sup> Source, analyst, London

<sup>37</sup> Oil and Gas Journal, 13 Mar 2019.

<sup>38</sup> Oil and Gas Journal, 13 Mar 2019.

<sup>39</sup> Oil and Gas Journal, 13 Mar 2019.

<sup>40</sup> Oil and Gas Journal, 13 Mar 2019.

<sup>41</sup> Oil and Gas Journal, 13 Mar 2019.

<sup>42</sup> Reuters, 12 Mar 2019.

<sup>43</sup> Oil and Gas Journal, 13 Mar 2019.

operating in 2023, a year after the projected target of oil production in 2022.<sup>44</sup> The refinery is a central feature of the government's beneficiation policy, which will see Uganda become a regional hub for processed products from oil.<sup>45</sup> This will include kerosene, gasoline, diesel, and heavy fuel oils.<sup>46</sup>

However, there have been delays in the construction of the crude oil pipeline, a key component of the oil infrastructure, which may delay the FID on the pipeline project.<sup>47</sup> The governments of Uganda and **Tanzania**, and private oil companies involved in constructing the pipeline (**France-based Total E&P, United Kingdom-based Tullow Oil and China National Offshore Oil Company**) are yet to reach an agreement on the terms of the host government agreement, shareholder agreements, and transportation fees.<sup>48</sup> The 1,445km-long and 24-inch diameter **East African Crude Oil Pipeline (EACOP)** will transport crude oil from the oilfields in Hoima District to Tanzania's port of **Tanga**, exporting 216,000 barrels of crude oil per day.<sup>49</sup>

Development of Uganda's oil infrastructure has progressed relatively slowly since commercial oil quantities were discovered in 2006.<sup>50</sup> The Ugandan government has had to push back the date of oil production several times, from 2018, 2020, and now 2022.<sup>51</sup> The multiplicity of actors involved in developing the oil infrastructure, who have divergent interests, partly explains the delays.<sup>52</sup> Given the volatility of the oil price, Uganda runs the risk that increased global oil supplies will yield a low price of oil per barrel by the time its oil exports begin.<sup>53</sup>

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<sup>44</sup> Reuters, 12 Mar 2019.

<sup>45</sup> Reuters, 12 Mar 2019.

<sup>46</sup> Oil and Gas Journal, 13 Mar 2019.

<sup>47</sup> The East African, 14 Mar 2019.

<sup>48</sup> The East African, 14 Mar 2019.

<sup>49</sup> The East African, 14 Mar 2019.

<sup>50</sup> Source, analyst, London

<sup>51</sup> Source, analyst, London

<sup>52</sup> Source, analyst, London

<sup>53</sup> Source, analyst, London

## Planner

1 Apr 2019 **Kampala (Uganda) Bank of Uganda** (central bank) MPC meeting;  
 30 Apr 2019 **Kampala (Uganda) ICT For Development Conference**;  
 26 Jun 2019 **Kampala (Uganda) Uganda Trade Expo**;  
 19 Sept 2019 **Kampala (Uganda) Uganda Oil and Gas Summit**;  
 2 Oct 2019 **Kampala (Uganda) Uganda International Trade Fair**;  
 2020 **Final Investment Decision** on oil and gas sector;  
 2021. **(Uganda) Uganda general election**;

## Chronology

14 Mar 2019. **Kampala (Uganda) The East African**. Disagreements between the governments of **Uganda** and **Tanzania**, and private oil companies over shareholding, tariffs and host government agreements further delay the development of the **East Africa Crude Oil Pipeline (EACOP)**;

13 Mar 2019. **Kampala (Uganda) Oil and Gas Journal**. **Uganda's** energy and mineral development ministry approves front end engineering designs (FEED) and engineering, procurement and construction (EPC) plans for the 60,000 barrels-per-day refinery;

10 Mar 2019. **Kampala (Uganda) Daily Monitor**. **United States** assistant secretary for **African Affairs Tibor Nagy** indicates that the US will not directly intervene in the **Rwanda-Uganda** diplomatic tensions;

9 Mar 2019. **Kigali (Rwanda) The New Times**. President **Paul Kagame** says that **Rwanda** has been making efforts to resolve the diplomatic tensions with **Uganda**, without success;

5 Mar 2019. **Kigali (Rwanda) Bloomberg**. **Rwanda's** foreign minister, **Richard Sezibera**, accuses the government of **Uganda** of arresting, torturing and deporting Rwandese citizens;

5 Mar 2019. **Kampala (Uganda) Softpower**. **Uganda's** members of parliament request prime minister **Ruhakana Rugunda** to issue an official statement on the actual causes of the diplomatic tensions between Uganda and **Rwanda**;

4 Mar 2019. **Kampala (Uganda) Reuters**. Uganda's government spokesman, **Owono Opondo**, said that **Rwanda** has partly lifted the trade blockade at the countries' borders;

21 Feb 2019. **Kampala (Uganda) Reuters**. **South Africa**-based telecommunications company, **MTN Group** denies accusations by the government that it has been understating revenues and evading taxes;

27 Feb 2019. **Kampala (Uganda) Journal di Cameroun**. The **Bank of Uganda (BoU)** (central bank) reveals that gold exports have overtaken coffee as **Uganda's** top foreign currency earner for the first time;

20 Feb 2019. **Kampala (Uganda) Reuters**. **Uganda's** ruling **National Resistance Movement (NRM)** endorses President **Yoweri Museveni** as its candidate in the 2021 presidential election;

18 Feb 2019. **Kampala (Uganda) Africa News**. The **International Monetary Fund (IMF)** says it expects **Uganda** to attain a 6.3% economic growth rate in the 2018-2019 fiscal year;

### About Africa Risk Consulting:

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