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President Yoweri Museveni (1986-present) signs a memorandum of understanding (MoU) with Rwanda's president, Paul Kagame (1994-present), aiming to bring to an end several months of hostilities between Uganda and Rwanda. The United States (US) Department of State imposes sanctions on former Inspector General of Police Kale Kayihura over corruption and human rights abuse allegations. Kayihura denies the allegations, claiming that he worked closely with the US Federal Bureau of Investigation (FBI) during his term of office. The International Monetary Fund (IMF) appoints a resident supervisor for the Bank of Uganda (central bank), following several scandals involving the theft of banknotes by staff members and irregularities in staffing, and the closure and sale of commercial banks in Uganda. United Kingdom-based oil company Tullow Oil cancels its planned farm-down sale with joint venture partners France-based Total E&P, and China-based China National Offshore Oil Company (CNOOC) after the government refused to grant tax relief on the transaction, further delaying the construction of the East African Crude Oil Pipeline and the production of Uganda's oil.

Angola brokers peace pact between Rwanda and Uganda

President **Yoweri Museveni** (1986-present) signed a memorandum of understanding (MoU) with **Rwanda's** president, **Paul Kagame** (1994-present) on 21 August, which aims to bring to an end several months of hostilities between **Uganda** and Rwanda.¹ **Angola's** president, **João Lourenço** (2017-present) and the **Republic of Congo's** president, **Denis Sassou Nguesso** (1979-1992, 1997-present), facilitated the negotiations and signing of the peace deal.² Major tenets of the agreement include:

- Refraining from actions that destabilise or subvert the authority of either party;
- Avoiding creating the perception of subversive activities, such as financing, training, and infiltration;
- Respecting and protecting the rights and liberties of the nationals of either party resident in or in transit in their territories;
- Resumption of cross border trade and travel;
- Resumption of regional cooperation in political, security, defence, trade, and cultural activities;
- Establishing an ad-hoc commission for the countries' foreign affairs and internal affairs ministers and heads of intelligence to put the agreement into effect.³

The agreement follows accusations and counter-accusations of espionage, illegal detention, and assassinations, particularly starting in 2017.⁴ This resulted in the closure of the **Gatuna** border between the two countries to cargo transport.⁵ Rwanda also issued a directive prohibiting its citizens from travelling to Uganda.⁶

Rwanda has long accused Uganda of harbouring rebel movements plotting to unseat President

¹ Al Jazeera, 21 Aug 2019.

² Al Jazeera, 21 Aug 2019.

³ The Independent, 21 Aug 2019.

⁴ Al Jazeera, 21 Aug 2019.

⁵ Al Jazeera, 21 Aug 2019.

⁶ Al Jazeera, 21 Aug 2019.

Kagame's government, particularly the **Rwanda National Congress (RNC)**, and the **Democratic Forces for the Liberation of Rwanda (FDLR)**.⁷ Uganda accused Rwanda of conducting political assassinations in Uganda, and having Rwandese nationals in Uganda spy on behalf of Rwanda's government.⁸ The dispute is largely a result of mistrust and personal conflict between presidents Kagame and Museveni, who are erstwhile allies:⁹

*"Museveni and Kagame are military men who came to power by leading armed rebellions and overthrowing their predecessors, and both live to some extent in fear that one day someone will do the same thing to them."*¹⁰

Although this is a significant development towards ending the standoff, analysts are cautiously optimistic:

*"The MOU is a positive step because it lays the foundation for addressing outstanding issues as both countries will actively engage in the coming months to resolve these issues... But it is not a silver bullet as we have been here before (holding bilateral meetings) but no action was taken."*¹¹

US slaps former police chief Kayihura with sanctions

United States (US) Secretary of State **Mike Pompeo** issued a statement on 13 September saying that the US has imposed sanctions against Uganda's former inspector-general of police (IGP), General **Kale Kayihura**, citing human rights abuses that he and officers under his command allegedly committed while he was in office.¹² The sanctions prohibit Kayihura from travelling to the US, freeze any US-based assets that he owns, and outlaw the conduct of business transactions between US-based entities and those connected to Kayihura.¹³ Kayihura served as Uganda's longest serving IGP from 2005 to 2018, when President Museveni removed him from office.¹⁴ He also commanded the notorious "**Flying Squad**", a specialist unit of the **Uganda Police Force** that attacked opposition activists, after his appointment in 2005.¹⁵

Pompeo cited the **Global Magnitsky Act 2016**, which empowers the US government to impose sanctions on any organisation or individual outside of the US.¹⁶ Under-secretary for terrorism and financial intelligence **Sigal Mandelker** attributed the sanctions to Kayihura's use of corruption and bribery to strengthen his political standing in Uganda:

*"We are targeting Uganda's former police inspector general Kale Kayihura for using corruption and bribery to strengthen his political position as units under his command committed serious human rights abuses. The US government is committed to leveraging our human rights and corruption authorities to target, disrupt, and counter those who engage in abuse and corruption around the world. As a result of today's action, all property and interests in property of Kayihura, and of any entities that are owned, directly or indirectly, 50 percent or more by him alone or with other designated persons, that are in the United States or in the possession or control of US persons, are blocked and must be reported to the **Office of Foreign Assets Control (OFAC)**. OFAC's regulations generally prohibit all transactions by US persons or within (or transiting) the United States that involve any property or interests in property or designated or otherwise blocked persons."*¹⁷

Specific details of the grounds for the US State Department's sanctions against Kayihura include:

⁷ Al Jazeera, 21 Aug 2019.

⁸ Al Jazeera, 21 Aug 2019.

⁹ Source, analyst, London

¹⁰ Kampala-based analyst, Malcolm Webb quoted in Al Jazeera, 21 Aug 2019.

¹¹ Ugandan government official quoted in The East African, 24 Aug 2019.

¹² Reuters, 13 Sep 2019.

¹³ Reuters, 13 Sep 2019.

¹⁴ Reuters, 13 Sep 2019.

¹⁵ The Independent, 13 Sep 2019.

¹⁶ The Independent, 15 Sep 2019.

¹⁷ US under secretary for terrorism and financial intelligence, Sigal Mandelker quoted in Reuters, 13 Sep 2019.

- Inhumane treatment of detainees by the Uganda Police Force Flying Squad Unit at the **Nalufenya Special Investigations Centre (NSIC)**;
- Offering detained and tortured suspects sums of money in exchange for confessions to committing crimes,
- Using bribery to strengthen his position in the government of Uganda, theft of funds designated to government business;
- Smuggling contraband out of Uganda, such as drugs, gold, and wildlife.¹⁸

Kayihura has issued a statement denying the accusations, describing the US State Department's statement as "*baseless, unverified, and outrageous*", and saying that the US government did not accord him an opportunity to provide evidence disproving the criminal accusations:

*"There was absolutely no due process accorded to me before false, wild and defamatory statements about my person and my record were issued from **Washington**, without any bother to verify such allegations, which are in actual fact against the state of Uganda for which I was working... I do not own and have never owned any property in the United States, or anywhere outside Uganda. I do not have any bank accounts outside my country, Uganda. The insinuations in the statement that I could own any property outside Uganda are totally fabricated and malicious... The **Federal Bureau of Investigation (FBI)** worked closely with me and with units of police that were involved in fighting crime, including the Flying Squad. They were not scandalized by my leadership but actually gave me an award for my contribution in the fight against terror. There is no high profile case in which our units did not liaise with the FBI... The **US Treasury** would thus do well to sanction those officers also."*¹⁹

The US State Department's imposition of sanctions against Kayihura is largely symbolic and will have few direct political implications, since he no longer holds public office.²⁰ However, the State Department is probably indirectly signaling its displeasure with President Museveni's regime, since Kayihura derived his power, authority and political clout from his relationship with Museveni.²¹ The sanctions will also serve as a warning to other high profile government officials, who may have commercial interests and properties in the US or entities linked to the US, of the potential of falling under similar sanctions in the future.²²

IMF assigns resident supervisor to Bank of Uganda

The **International Monetary Fund (IMF)** appointed a resident bank supervisor to the **Bank of Uganda (BoU)** (central bank) on 6 September who will provide assistance to the BoU governor in supervising Uganda's banking sector.²³ This development follows concerns that the BoU's operations have contravened international regulatory standards, resulting in several high-profile scandals, such as the suspected theft of printed banknotes in April and closure of banks in Uganda in an irregular manner.²⁴ The BoU has faced recent criticism for the alleged fraudulent closure and sale of commercial banks in Uganda, particularly **Crane Bank Limited**, owned by high profile businessman **Sudhir Ruparelia** in 2016.²⁵ President Museveni also appointed a tripartite commission to investigate irregularities at the BoU in March, which revealed several scandals such as unlawful appointment and promotion of staff, and infighting among senior officials at the central bank.²⁶

BoU governor **Emmanuel Mutebile** said that although the BoU has had several shortcomings in its operations, the IMF holds its work in high regard:

¹⁸ The Independent, 14 Sep 2019.

¹⁹ Excerpts from former IGP, Kale Kayihura's statement quoted in The Independent, 14 Sep 2019.

²⁰ Source, analyst, London

²¹ Source, analyst, London

²² Source, analyst, London

²³ Daily Monitor, 6 Sep 2019.

²⁴ Daily Monitor, 6 Sep 2019.

²⁵ PM Daily, 4 Sep 2019.

²⁶ Daily Monitor, 5 Sep 2019.

“The Bank of Uganda remains focused on maintaining strong supervision. The IMF sent us resident bank supervision to help strengthen supervision so that we get strong financial performance going forward.”²⁷

The IMF’s appointment of a resident supervisor follows the dismissal of staff at the BoU’s currency centre in the eastern Uganda town of **Mbale** on 28 August after employees faced allegations that they had stolen old banknotes that were scheduled for decommissioning.²⁸ This gave rise to concerns that the BoU is unable to guarantee the security of the country’s currency, as senior BoU officials had also faced accusations in April of stealing newly printed cash that had been imported from **Germany** to Uganda.²⁹ The BoU subsequently issued new regulations on the access to currency vaults in its regional currency centres, and upgraded its surveillance systems.³⁰

The IMF’s appointment of a resident supervisor is a measure aimed at addressing the endemic problem of corruption in the BoU.³¹ The scourge of corruption is not unique to the central bank, but also affects the rest of Uganda’s public sector.³² If the irregularities continue, Uganda risks censure from the IMF, given the sensitive nature of managing various aspects of the country’s currency, from printing and procurement, circulation, exchange rate, and decommissioning of old bank notes.³³

Tullow ends farm-down deal over tax dispute with government, EACOP suspended

United Kingdom-based oil company **Tullow Oil Plc** has cancelled its planned sale of Uganda-based assets to joint venture partners **France**-based **Total E&P** and **China National Offshore Oil Company (CNOOC)** on 29 August following its failure to negotiate tax relief with the **Uganda Revenue Authority (URA)**.³⁴ This will delay the commencement of oil production in Uganda, and stalls the construction of the **East African Crude Oil Pipeline (EACOP)**, which would be the primary mode of transporting oil from Uganda’s oilfields in **Hoima** to **Tanzania’s** port of **Tanga**.³⁵

*“Tullow has worked tirelessly over the last two and a half years to complete this farm down which was structured to re-invest the proceeds in Uganda. Whilst this is a very attractive low-cost development project, we remain committed to reducing our operated equity stake. It is disappointing to report this news at a time when we are making so much progress elsewhere towards the growth of the Group with our recent oil discovery in **Guyana** and the first export of oil from **Kenya**.”³⁶*

The cancellation of the deal emanates from the Ugandan government’s insistence that the joint venture partners pay multiple taxes from the farm down transaction, or sale of assets from Tullow to Total and CNOOC.³⁷ In the Special Purchase Agreement (SPA) that Tullow established with Total and CNOOC, it would sell its 33.33% stake in Uganda’s oil industry to Total and CNOOC, retaining 11.8%.³⁸ Initially the government required that Tullow Oil pay a capital gains tax of \$185m from the farm down to CNOOC and Tullow, a deal worth \$617m.³⁹ Tullow had intended to use the proceeds to pay for its share in the EACOP and thus requested a waiver of the tax from the government of Uganda.⁴⁰ Tullow eventually reached an agreement with the URA on the payment of the tax, but the government sought to tax CNOOC and Total as buyers.⁴¹ The deal was thus cancelled when Total and CNOOC failed to

²⁷ BOU governor, Emmanuel Mutebile quoted in Daily Monitor, 6 Sep 2019.

²⁸ Chimp Reports, 28 Aug 2019.

²⁹ Chimp Reports, 28 Aug 2019.

³⁰ Chimp Reports, 28 Aug 2019.

³¹ Source, analyst, London

³² Source, analyst, London

³³ Source, analyst, London

³⁴ The East African, 31 Aug 2019.

³⁵ The East African, 31 Aug 2019.

³⁶ Tullow’s chief executive officer, Paul McDade, statement posted on Tullow Oil’s website, 29 Aug 2019.

³⁷ The East African, 31 Aug 2019.

³⁸ The East African, 31 Aug 2019.

³⁹ The East African, 31 Aug 2019.

⁴⁰ The East African, 31 Aug 2019.

⁴¹ The East African, 31 Aug 2019.

obtain tax relief from the URA.⁴²

Total E&P has suspended all activities pertaining to the construction of the EACOP, a project worth \$3.5 billion, mainly because the three companies were scheduled to determine shared ownership in the project after completing Tullow Oil's farm down transaction.⁴³ Tullow said that it will now initiate a new sale process to achieve its planned farm down in Uganda.⁴⁴ This will delay the Final Investment Decision (FID) that would unlock financing for the production phase of the oil sector, which had been scheduled for the end of 2019.⁴⁵

*"Despite the termination of this agreement, Total together with its partners CNOOC and Tullow will continue to focus all its efforts on progressing the development of the **Lake Albert** oil resources. The project is technically mature and we are committed to continuing to work with the Government of Uganda to address the key outstanding issues required to reach an investment decision. A stable and suitable legal and fiscal framework remains a critical requirement for investors."*⁴⁶

Tanzania's president, **John Magufuli** (2015-present), also weighed in on the issue at the **Tanzania-Uganda Business Forum in Dar es Salaam** (Tanzania) on 6 September, urging President Museveni to forego short-term benefits from taxing the oil companies for long-term benefits from oil production.⁴⁷ President Museveni has taken a nationalistic approach to dealing with oil companies, which has contributed to the delay in producing Uganda's oil.⁴⁸ Although this may result in increased domestic economic benefit from the oil industry, through the payment of taxes and provision of jobs to Ugandans, the frequent delays and stalemate resulting from negotiating tax relief are likely to reduce the value of Uganda's oil sector and discourage prospective investors from entering Uganda.⁴⁹

Planner

25 Sep 2019 **Kampala (Uganda)** Uganda Oil and Gas Summit;
 2 Oct 2019 **Kampala (Uganda)** Uganda International Trade Fair;
 2020 **(Uganda)** Final Investment Decision on oil and gas sector;
 2023 **(Uganda)** Uganda general election;

Chronology

15 Sep 2019 **Kampala (Uganda)** *The East African*. Former inspector general of police **Kale Kayihura** denies allegations that the **United States (US) Department of State** levelled against him, claiming that he worked closely with the US **Federal Bureau of Investigation (FBI)**;
 13 Sep 2019 **Kampala (Uganda)** *Reuters*. The **United States Department of State** imposes sanctions on former inspector general of police **Kale Kayihura** over allegations of corruption, smuggling and human rights abuses;
 11 Sep 2019 **Kampala (Uganda)** *Yahoo News*. President **Yoweri Museveni** calls for courts to impose death penalties on all convicted murderers after unknown assailants killed his nephew on 5 September;

⁴² The East African, 31 Aug 2019.

⁴³ Bloomberg, 4 Sep 2019.

⁴⁴ Statement posted on Tullow Oil's website, 29 Aug 2019

⁴⁵ Bloomberg, 4 Sep 2019.

⁴⁶ Total E&P's president for Exploration and Production, Arnaud Breuillac quoted in Oil Field Technology, 2 Sep 2019.

⁴⁷ The Observer, 8 Sep 2019.

⁴⁸ Source, analyst, London

⁴⁹ Source, analyst, London

8 Sep 2019 **Kampala (Uganda)** *The Observer*. **Tanzania's** President **John Magufuli** urges President **Yoweri Museveni** to forego some taxation requirements on oil companies to allow oil production to commence in **Uganda**;

6 Sep 2019 **Kampala (Uganda)** *Daily Monitor*. The **International Monetary Fund (IMF)** appoints a resident bank supervisor to the **Bank of Uganda (BoU)** (central bank) following several operational and regulatory scandals at the BoU;

4 Sep 2019 **Kampala (Uganda)** *Bloomberg*. **France**-based oil company **Total E&P** cancels planned construction of the **East African Crude Oil Pipeline (EACOP)** after failing to receive tax waivers from the **Uganda Revenue Authority**;

4 Sep 2019 **Kampala (Uganda)** *PML Daily*. The **Bank of Uganda (BoU)** issues stricter rules on access to cash rooms at its currency centres following theft of old banknotes by staff members at its currency centre in **Mbale**;

31 Aug 2019 **Kampala (Uganda)** *The East African*. **United Kingdom**-based oil company **Tullow Oil's** farm down deal with joint venture partners **China**-based **China National Offshore Oil Company (CNOOC)**, and **France**-based **Total E&P** falls through after government declines to provide tax relief on the transaction;

21 Aug 2019 **Luanda (Angola)** *Al Jazeera*. **Uganda's** President **Yoweri Museveni** and **Rwanda's** President **Paul Kagame** sign a peace agreement that brings to an end months of hostilities between the two countries;

About Africa Risk Consulting:

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