

AFRICA RISK CONSULTING

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Uganda Summary 16 November 2019

Rwanda's foreign ministry postpones indefinitely a follow-up meeting with Uganda as part of the bilateral agreement that the two leaders signed in Luanda (Angola) in August, after Rwandan security agents kill two Ugandan nationals. President Yoweri Museveni (1986-present) receives an inaugural state visit from Democratic Republic of the Congo (DRC) President Felix Tshisekedi (2019-present). The Uganda Communications Commission (UCC) announces new regulations that will require telecommunications companies operating in Uganda to list at least 20% of their shares on the Uganda Stock Exchange (USE). President Museveni meets with representatives of United Kingdom-based Tullow Oil, France-based Total E&P and China National Offshore Oil Company (CNOOC) to resolve the stalemate resulting from the government's refusal to grant the companies tax relief. If successful, the negotiations will pave way for oil production in Uganda in 2020.

Rwanda cancels Luanda Agreement meeting

The **Rwandan** government has postponed indefinitely a meeting with **Ugandan** government officials scheduled for 18 November after Rwandan security officers shot and killed two Ugandan nationals on 10 November over smuggling allegations.¹ The events are likely to threaten the peace agreement that President **Yoweri Museveni** (1986-present) and Rwanda's President **Paul Kagame** (1994-present) signed in **Luanda (Angola)** on 21 August (see *ARC Briefing Uganda September 2019*) and will further chill Uganda's already frosty relations with its neighbour.² The two countries have traded accusations of espionage and intent to cause political destabilisation in the past, which led to Rwanda closing its border with Uganda in February.³ Until then, Rwanda had been Uganda's leading trade partner in the **East African Community (EAC)**.

A **Uganda Police Force** spokesman for the **Kigezi** region that borders Rwanda said that the victims, **Job Byarushanga** and **Bosco Tuhirirwe**, had smuggled tobacco into Rwanda.⁴ The Rwandan government justified the killings as self-defence by its officers after Byarushanga and Tuhirirwe "*violently resisted*" arrest.⁵ The incident follows a shooting on 4 November by Rwandan security agents of a Rwandan national who had used an undesignated border crossing to obtain goods from Uganda, and was forced to flee back into Uganda as a result.⁶

Uganda's foreign ministry issued a protest note to the **High Commission of the Republic of Rwanda** in **Kampala** on 12 November, criticising the killings:

"The alleged crime cannot justify the high-handed and criminal act by the Rwandan security personnel against unarmed civilians residing along the common border... the ministry notes that these murders are inimical to the on-going efforts to improve relations between the two countries. The ministry demands that a joint investigation in the murders be conducted and the perpetrators held accountable. The government of Uganda considers the shooting incident a grave matter and although the latest victim is Rwandan, it constitutes a pattern of reckless and high-handed acts on the part of Rwanda's security personnel, against simple, ordinary people

¹ The East African, 16 Nov 2019.

² The East African, 16 Nov 2019.

³ The East African, 16 Nov 2019.

⁴ The New York Times, 10 Nov 2019.

⁵ The New York Times, 10 Nov 2019.

⁶ The Observer, 14 Nov 2019.

that live along the common border.”⁷

The government of Rwanda subsequently postponed on 14 November a planned meeting in **Kampala** with Ugandan officials as part of the Luanda Agreement, which was scheduled to take place on 18 November.⁸ Rwanda’s state minister for the EAC, **Olivier Nduhungirehe**, said “*other important commitments*” had necessitated the indefinite postponement.⁹ The meeting was a follow-up to one held in **Kigali** (Rwanda) on 16 September.¹⁰ President Kagame issued a warning to the country’s perceived enemies, of the “*high costs*” of destabilising Rwanda:

“For those who are involved, you’ll have to come clean. You can’t be benefitting from the peace and security that we have paid for in blood, and then do things that cause us problems. We will put you where you belong.”¹¹

The shootings and postponement of the meeting will considerably weaken the shaky peace agreement, which may require mediation by a third party.¹² However, the risk of direct violence between the two countries is low.¹³

DRC president pays inaugural state visit to Uganda

The **Democratic Republic of the Congo’s (DRC)** President **Felix Tshisekedi** (2019-present) paid an inaugural state visit to Uganda from 9-11 November and attended the first ever **Uganda-DRC Business Forum**.¹⁴ The visit signals the warming of relations between the two countries, which have been characterised by political tensions over the years mainly stemming from Uganda’s involvement in military violence in the DRC.¹⁵ The rapprochement is likely to increase the level of economic cooperation between Uganda and the DRC.¹⁶ In his opening remarks at the business forum, President Museveni said the summit would facilitate increased opportunities for job creation and higher incomes in both countries through bilateral trade.¹⁷

*“Uganda and the DRC can [develop] comparative advantage. If something is done better in Congo, we do it there and Uganda buys it, and vice versa. Then we get low-cost but high quality products. We need the market of the whole of **Africa** and avoid taxes at our borders. What we should concentrate on is the quality of goods and services. Internal [domestic] markets alone are not sufficient to guarantee prosperity.”¹⁸*

Uganda’s foreign ministry also issued a public statement highlighting the progress the two nations made at the summit:

“Uganda and the DRC have concluded a number of cooperation frameworks. These include but are not limited to cooperation in health, peace and security, energy and mineral development, socio-economic infrastructure, trade and investment, among others... there is enormous room for growth and development if the two countries work together.”¹⁹

President Tshisekedi indicated the DRC’s commitment to cooperating with Uganda, lauding President Museveni on his approach to regional and continental cooperation:

⁷ Excerpts from the Uganda foreign ministry’s protest note to Rwanda, quoted in The Observer, 14 Nov 2019.

⁸ The East African, 16 Nov 2019.

⁹ The East African, 16 Nov 2019.

¹⁰ The East African, 16 Nov 2019.

¹¹ Rwanda’s president Paul Kagame, quoted in The Independent, 14 Nov 2019.

¹² Source, analyst, London

¹³ Source, analyst, London

¹⁴ Daily Monitor, 9 Nov 2019.

¹⁵ Daily Monitor, 9 Nov 2019.

¹⁶ Daily Monitor, 9 Nov 2019.

¹⁷ Daily Monitor, 9 Nov 2019.

¹⁸ Excerpts from President Museveni’s remarks at the Uganda-DRC Business Forum, quoted in Daily Monitor, 9 Nov 2019.

¹⁹ Excerpts from Uganda’s foreign affairs ministry after the Uganda-DRC Business Forum, quoted in Daily Monitor, 9 Nov 2019.

¹⁹ Daily Monitor, 9 Nov 2019.

"I thank my elder, President Museveni, from the bottom of my heart. I know who he is, his vision for the region and for Africa. I am aware of his other vision of integration and prosperity of Africa. I would like to say that his vision tallies with mine. I am here to see how to push this vision further."²⁰

Trade between Uganda and the DRC has to date been largely informal, and the **Uganda Bureau of Statistics** estimates its value at \$531m as of July.²¹ The two countries are also likely to explore joint cooperation in the oil sector, since the bulk of Uganda's oil find is located beneath **Lake Albert**, on the border between Uganda and the DRC.²² Another area for cooperation is security, as several armed groups such as the **Allied Democratic Forces (ADF)**, an Islamist group with origins in Uganda, operate in the DRC's eastern region.²³

The visit is part of the new Congolese president's efforts to re-establish political and economic ties in the region and beyond.²⁴ Uganda stands to benefit from economic and political cooperation, given its landlocked location and need for a new regional trade partner as its diplomatic tensions with Rwanda continue (see above).²⁵

Communications watchdog orders telecoms companies to list on USE

The **Uganda Communications Commission (UCC)** announced on 30 October that all telecommunications companies operating in the country must list at least 20% of their shares on the **Uganda Stock Exchange (USE)** in order to promote the participation of citizens in the industry.²⁶ The new regulation is unlikely to have a significant impact on Uganda's economy, given the limited capacity for independent capital in the country. The USE is a relatively small bourse, constituted by 18 companies and with limited activity.²⁷ Its most recent initial public offering (IPO) took place in September, after six years without any new listings.²⁸ UCC spokesman **Ibrahim Bbosa** said the directive is part of a new licensing policy with which all operators must begin complying within two months:

"In 60 days, we [would] have issued new licences and then two years from then, all the players should have listed at least 20% of their shares on the Uganda Stock Exchange."²⁹

The new rules will also see companies sharing infrastructure, such as fibre optic cables, which the UCC says will lower the costs of internet and other services through reducing duplication.³⁰ Although Uganda's telecommunications industry has grown rapidly over the years, companies are reluctant to list on the local bourse because of the possible failure to attract a sufficient volume of buyers for the shares.³¹ **MTN Uganda** has in the past suggested selling shares to local pension funds instead of listing on the USE.³² However, Bbosa said that the companies should discuss the issue with the USE and establish a solution.³³

Rwanda-based analyst **Enock Twinoburyo** said the companies may attract considerable interest:

"Considering especially MTN and [India-based] Airtel are highly profitable companies... they would draw more than sufficient interest from both retail and institutional investors in an IPO."³⁴

²⁰ DRC's president Felix Tshisekedi quoted by Anadolu New Agency, 11 Nov 2019.

²¹ Daily Monitor, 9 Nov 2019.

²² Source, analyst, London

²³ Source, analyst, London

²⁴ Source, analyst, London

²⁵ Source, analyst, London

²⁶ Reuters, 30 Oct 2019.

²⁷ Reuters, 30 Oct 2019.

²⁸ Reuters, 30 Oct 2019.

²⁹ UCC spokesman quoted in Reuters, 30 Oct 2019.

³⁰ Reuters, 30 Oct 2019.

³¹ Reuters, 30 Oct 2019.

³² Reuters, 30 Oct 2019.

³³ Reuters, 30 Oct 2019.

³⁴ Rwanda-based analyst Enock Twinoburyo, quoted by Reuters, 30 Oct 2019.

The bulk of Uganda's telecommunications operators are foreign owned, with **South Africa**-based **MTN Group** and Airtel dominating the local market.³⁵ The sector's profitability has attracted global attention, which resulted in **Google** and **Facebook** laying fibre optic cables in the country to improve services.³⁶ The strong demand for telecommunications services is partly due to Uganda's youthful population, as well as the availability of cheaper mobile phones. The UCC's statistics show that Uganda has approximately 24 million subscribers to mobile phone services, and there are 21.6 million internet users out of its population of 43 million.³⁷

Museveni gives oil companies a month to decide on government proposals

The private oil companies engaged in developing Uganda's oil sector met with President Yoweri Museveni on 31 October to discuss the government's proposals on how the oil sector can move forward, following the stalemate resulting from the government's refusal to extend tax relief to **United Kingdom (UK)**-based **Tullow Oil** in August.³⁸ The deals may result in the conclusion of the **Final Investment Decision (FID)**, which will pave the way for oil production in Uganda.³⁹ However, there is scant information pertaining to the actual deals, which would provide some tax relief and ensure that the companies obtain their cost recovery, while the government recovers annual tax revenue from the companies.⁴⁰ Should the government and oil companies reach an agreement on the deals, the FID could be unveiled in April.⁴¹

The meeting sought to discuss several contentious issues, particularly Tullow's failed farm-down of 21.5% of its assets in Uganda to **France**-based **Total E&P** and **China National Offshore Oil Company (CNOOC)** over the **Uganda Revenue Authority's (URA)** insistence that the company pays \$167m from the deal.⁴² The oil companies also sought to have the government pay recoverable costs from the investments that they have already made in Uganda before the payment of outstanding taxes.⁴³ The government and oil companies also disagree on the jurisdiction of registration for the **East African Crude Oil Pipeline's (EACOP)** holding company.⁴⁴ The government wants the company registered in Uganda, while the oil companies would rather have it based in the UK, to take advantage of friendlier tax and dividend laws.⁴⁵ The oil companies already have experience with Uganda's harsh tax laws, since their Uganda-based subsidiaries are registered as Ugandan companies in compliance with the country's legislation.⁴⁶

Despite limited information on the issue, the government's meeting and proposals to the oil companies are a promising development for Uganda's oil industry.⁴⁷ Uganda's tax and dividend laws are among the toughest in Africa, and this has resulted in a heavily constrained environment for oil companies, particularly when it comes to sale and licensing transactions.⁴⁸ President Museveni has adopted a nationalistic approach to negotiating with the companies, seeking to derive maximum value for Uganda from each phase of the oil value chain.⁴⁹ The government's frequent disputes with the oil companies partly accounts for the delay in the production of Uganda's oil since its discovery in 2006.

Despite the negative implications of the government's disputes with oil companies, Uganda's rankings in the latest **World Bank Doing Business Report** show a marked improvement. The 2020 rankings,

³⁵ Source, analyst, London

³⁶ Reuters, 30 Oct 2019.

³⁷ Reuters, 30 Oct 2019.

³⁸ Daily Monitor, 9 Nov 2019.

³⁹ Daily Monitor, 9 Nov 2019.

⁴⁰ The East African, 9 Nov 2019.

⁴¹ The East African, 9 Nov 2019.

⁴² The East African, 9 Nov 2019..

⁴³ Daily Monitor, 9 Nov 2019.

⁴⁴ Daily Monitor, 9 Nov 2019.

⁴⁵ Daily Monitor, 9 Nov 2019.

⁴⁶ Daily Monitor, 9 Nov 2019.

⁴⁷ Source, analyst, London

⁴⁸ Source, analyst, London

⁴⁹ Source, analyst, London.

which the World Bank released on 24 October, show that Uganda improved by 11 points from 127/190 in 2018, to 116/190.⁵⁰ It ranked 122nd in 2017, which was a drop from 115 in 2016.⁵¹ The index ranks countries against each based on a set of criteria, mainly the ease of starting a business, obtaining permits, access to electricity, registering property, access to credit, tax payment, customs and border processes, and enforcement of contracts.⁵² The 2020 ranking places Uganda in third position in **East Africa** with a score of 60, behind Rwanda at 38, and **Kenya** at 56.⁵³ The only notable reform that Uganda made in the last year was in improving access to electricity.⁵⁴

Planner

13 Dec 2019 **Kampala (Uganda) Bank of Uganda** (central bank) Monetary Policy Committee meeting
 3 Aug 2020 **Kampala (Uganda)** International Conference on Technology and Management
 18 Sep 2020 **Kampala (Uganda)** Business Growth Conference
 2020 **Final Investment Decision** on oil and gas sector
 2023 **(Uganda)** Uganda general election

Chronology

14 Nov 2019 **Kampala (Uganda) The Observer**. Uganda's foreign ministry delivers diplomatic protest note to **Rwanda's High Commission** in Kampala following the shooting of two Ugandans who allegedly smuggled tobacco into Rwanda;

14 Nov 2019 **Kigali (Rwanda) The Independent**. The government of Rwanda postpones a follow-up meeting scheduled for 18 November in **Kampala (Uganda)**, following the shooting of two Ugandan nationals by Rwandan border security agents in Rwanda;

10 Nov 2019 **Kampala (Uganda) VOA**. Uganda and the **Democratic Republic of the Congo (DRC)** sign a joint infrastructure development agreement to improve road networks between the two countries that will facilitate bilateral economic activity;

9 Nov 2019 **Entebbe (Uganda) Daily Monitor**. President **Yoweri Museveni** meets with representatives from **France-based Total E&P, United Kingdom-based Tullow Oil** and **China National Offshore Company (CNOOC)** to discuss new proposals that would pave way for oil production in Uganda;

9 Nov 2019 **Kampala (Uganda) Daily Monitor**. **Democratic Republic of the Congo (DRC)** president **Felix Tshisekedi** makes inaugural state visit to Uganda and signs economic and political cooperation agreements;

6 Nov 2019 **Kampala (Uganda) Reuters**. **United Kingdom-based Tullow Oil** CEO **Paul McDade** says Tullow has no timeline on its final investment decision (FID) in Uganda, until the government provides firm guarantees on its planned farm down sale;

6 Nov 2019 **Kampala (Uganda) Reuters**. The **Uganda Railways Corporation (URC)** announces plans to begin revamping the country's aged meter gauge rail (MGR) network with funds from the **European Union**, after the government of **China** declines to fund the \$267m project;

4 Nov 2019 **Kampala (Uganda) VOA**. Officers from the **Uganda People's Defence Forces (UPDF)** and **Uganda Police Forces** attack student protesters and journalists covering events in Kampala,

⁵⁰ World Bank, 24 Oct 2019.

⁵¹ World Bank, 24 Oct 2019.

⁵² World Bank, 24 Oct 2019.

⁵³ World Bank, 24 Oct 2019.

⁵⁴ World Bank, 24 Oct 2019

triggering global criticism;

30 Oct 2019 **Kampala (Uganda)** *Reuters*. The **Uganda Communications Commission (UCC)** announces new regulations requiring telecommunications companies operating in Uganda to list at least 20% of their shares on the **Uganda Stock Exchange (USE)**;

24 Oct 2019 **Kampala (Uganda)** *The Guardian*. Authorities arrest 16 LGBT activists on suspicion of gay sex;

23 Oct 2019 **Kampala (Uganda)** *Reuters*. **James Kizito Mayanja**, the information manager at the state-run **Uganda Coffee Development Authority**, says coffee exports are forecast to increase 16% year-on-year in 2019/2020;

22 Oct 2019 **Kampala (Uganda)** *Daily Monitor*. **Bank of Uganda (BoU)** (central bank) deputy governor says Uganda's quarterly economic growth rate for the second half of the financial year 2018/19 is at 5.5%, a drop from 6.6 % in the first half of the year;

14 Oct 2019 **Kampala (Uganda)** *Reuters*. Ethics and integrity minister **Simon Lokodo** denies the government plans to institute the death penalty for gay sex after the planned re-introduction of an anti-homosexuality bill;

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