Uganda Economic Outlook - 2024

Building Resilience

March 2024

pwc

Contents

1

Introduction

Renewed optimism

Welcome to our 2024 Uganda Economic outlook publication

At the start of the year, Uganda was at the focal point of significant international events, with the country hosting both the NAM (Non-Aligned Movement) conference, and the Third South Summit organised under the framework of Group 77 (G77) and China. The gatherings brought together leaders and policy makers from around the world, shining a spotlight on Uganda's role in global diplomacy and economic cooperation as well as highlighting the country's vast potential in trade and investment.

The NAM conference provided Uganda with a platform to engage in discussions on global issues, such as peace and security, economic development and international cooperation. Furthermore, Uganda's hosting of the G77+China has offered a unique opportunity for the country to engage with the world's leading industrialised nations.

During Uganda's one year of NAM's chairmanship, three issues will be focused on:

1. Enabling participation of all persons in spheres of production of goods and services;
2. Enabling access to markets for ease of buying and selling of goods and services; and
3. Creating soft and physical infrastructure in energy, information and technology, and transport.

Despite the continued tightness in global macroeconomic conditions, the Ugandan economy has demonstrated notable resilience with robust growth across the key sectors of agriculture, industry, and services. There has been a surge in private consumption, while public investment has scaled back.

In the meantime, the country is approaching the end of the third National Development Plan (NDP III), whose primary goal is "To increase average household incomes and improve the quality of life of Ugandans" in the period from 2020/21 to 2024/25.

According to the mid-term review of the NDP performed by the United Nations Development Program (UNDP)[1], Uganda has achieved only 17% of its planned targets halfway through the period. The UNDP attributed the weak performance to challenges of COVID-19 effects and the existence of data gaps, full transitioning to the programme approach, as well as weak planning and budgeting for core projects.

This economic outlook looks at the factors driving Uganda's growth and the key sectors that are expected to play a significant role in the country's economic growth, especially in the financial services and energy sectors. Subsequent outlooks will delve into other economic sectors.

We hope you enjoy reading it and we look forward to your feedback.

[1]UNDP - Uganda Reflects on Performance of NDPIII as it Starts Preparing New Development Plan, May 2023

2

Executive Summary

Uganda's economic environment in the first half of FY 2024 (from 1 July 2023 to 31 December 2023) reflected a dynamic landscape characterised by diverse macroeconomic indicators and noteworthy resilience in the face of global uncertainties. Despite challenges such as high commodity prices and tightened financial conditions, Uganda's economy rebounded strongly from a weak first quarter ending 30 September 2023 to post an impressive annualised GDP growth rate of 6.3% for the first six months of the fiscal year, off the back of buoyancy of the services and industrial sectors.

The Uganda Shilling experienced fluctuations against the US dollar, but overall it demonstrated commendable stability against the US dollar, reflecting economic vitality and signifying a favourable investment climate. However, there were fluctuations due to bearish sentiments and global trends, reminding us of the influence of market sentiments on the exchange rate.

The financial services sector remains a key contributor to Uganda's macroeconomic stability and performance. The sector has remained strong despite economic challenges precipitated by adverse geopolitical shifts in the wider Eastern Africa region and globally.

The financial services sector demonstrated remarkable resilience during and following the recent economic challenges triggered by factors such as the Russia-Ukraine war. Efforts focused on cybersecurity and financial crime led to concerted partnerships to combat the impact on the institutions and the sector.

In the energy sector, Uganda's ambition to develop its energy and mineral resources aligns with the Vision 2040 agenda, supported by various government plans and initiatives such as the recently launched Energy Transition Plan and the Energy Policy 2023. The country is also maintaining focus on adopting clean energy initiatives to tap into its vast renewable energy potential, including solar, wind, and geothermal energy.

Key legislative changes have impacted several aspects of the economy, including anti-money laundering, financial institutions' minimum capital requirements, tax matters, mining and minerals, and the regulation of companies. The changes aim to enhance transparency, combat financial crimes, and foster fair competition in Ugandan markets. As of the publication date of this report, these efforts had yielded results with Uganda being taken off the Financial Action Task Force (FATF) grey list - a significant positive outcome after 4 years of a downgrade.

3

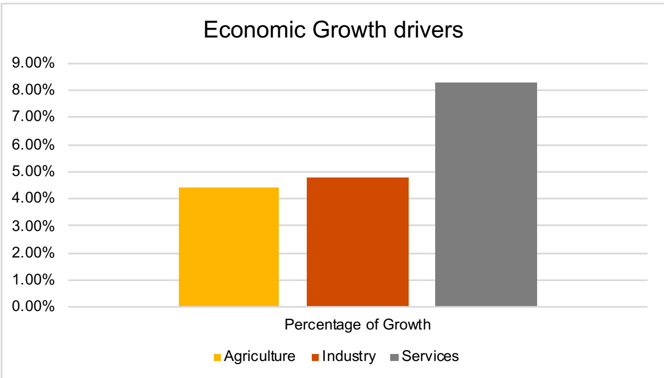
Juliet Najjinda

Joel Ndyamuhaki

Macroeconomic Outlook

Micro and Macro-economic Review for first half of FY 2023/24

Uganda witnessed a remarkable economic expansion, in the latter part of the calendar year 2023 and the key drivers of this growth were agriculture, industry, and services, expanding by 4.4%, 4.8%, and 8.3%, respectively[2]. Despite facing challenges such as higher commodity prices and tightened financial conditions, the nation demonstrated the resilience of its economic foundation.



Source: Africa Development Bank Group, 2023, Country Focus Report 2023 Uganda

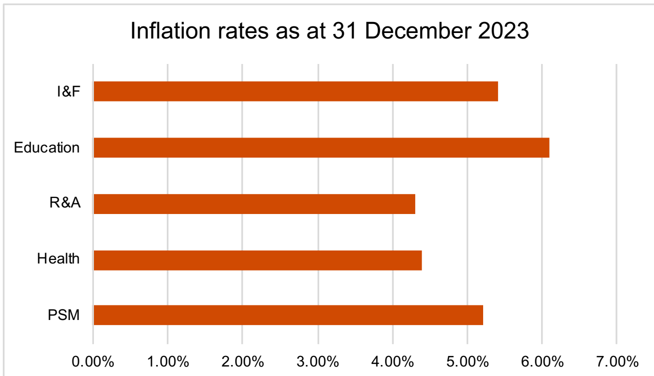
Economic growth is expected to continue accelerating above 6% beyond the medium term as Bank of Uganda eases monetary policy and as the Government shifts reliance to revenue collection and spending efficiencies to cut the deficit[3]. In addition, the recovery in tourism combined with Government's export diversification, agro-industrialization efforts and investments in oil related infrastructure are expected to continue supporting our macroeconomic fundamentals.

Inflation

Globally, the persistent spectre of inflationary pressures continues to cast shadows over household incomes and economic activity.The consequences of elevated debt, coupled with low productivity in trade and manufacturing sectors, alongside geopolitical tensions present additional challenges on the global economic stage.

Despite the anticipated decline in global inflation from 8.7% in 2022 to 5.2% in 2024, it remains notably higher than pre-pandemic levels[4]. The strategic tightening of monetary policies, especially in advanced economies, aims to gradually mitigate inflation, influenced by the fluctuation of commodity prices, notably in energy and food sectors.

In contrast to the global trend, inflation in Uganda continued to respond positively to the tight monetary and fiscal policies and further benefited from improved harvests due to better weather conditions and relatively stable exchange rates[5]. However, headline inflation increased slightly in November 2023, to 2.6% from 2.4% in October 2023, while core inflation remained unchanged at 2.0%[6]. Inflation is projected to be maintained below 5% in the near term but return to the target in the medium term.



Source: Bank of Uganda, Monetary Policy Statement, December 2023

R&A – Restaurants and Accommodation Services

I&F – Insurance and Financial Services

PSM – Personal care, social protection and miscellaneous goods

---

[2]Africa Development Bank Group, 2023, Country Focus Report 2023 Uganda.
[3]https://www.worldbank.org/en/country/uganda/overview
[4]Bank of Uganda, 2022-2023, Annual Report
[5]Bank of Uganda, Monetary Policy Statement, December 2023
[6]Ibid

5.1%

Depreciation of the shilling against the US dollar in FY 2022/23

In an effort to continue boosting economic activity and to support private sector investment, the BoU in December 2023 maintained its Central Bank Rate (CBR) at 9.5%, the same level since August 2023. At press time, BOU had increased the CBR rate to 10% and both headline and coreinflation rose to 3.4% by the end of February 2024. The CBR is a policy interest rate set by BoU to influence the pricing of financial assets in the economy such as loan, mortgages, treasury bills and bonds and foreign currency. Changes in the CBR affect the cost of borrowing.

Exchange Rates

In the first half of FY 23, the Uganda Shilling was relatively stable against the US dollar, maintaining pre-Covid-19 levels. Contributing factors included increased foreign direct investment, buoyant remittances, and improvements in terms of trade. However, month-on-month depreciation occurred due to bearish sentiments, a reversal of the current account, and the global strengthening of the US dollar.

Consequently, the shilling experienced a 5.1% depreciation against the US dollar in FY 2022/23, driven by hawkish monetary policies in advanced economies. This trend persisted due to the multifaceted impact of the Russia-Ukraine war, causing disruptions in supply chains, elevating commodity prices, and creating tight global financial conditions.

Despite the 5.1% depreciation, strategic interventions by BoU, including a contractionary monetary policy stance, played a vital role in stabilising the currency. The nominal effective exchange rate weakened by 1.6%, reflecting challenges against the currencies of Uganda's trading partners[7].

This depreciation underscores Uganda's economic interconnectedness with the broader international landscape, emphasising the need for proactive management of external pressures. Efforts to stabilise the exchange rate through monetary policy interventions highlight Government's commitment to maintaining economic stability.

Exchange rate fluctuations significantly impact import and export costs, directly influencing overall economic health. Proactive government actions are an indicator of the pivotal role of a well-managed monetary policy in navigating external challenges. The Russia-Ukraine war serves as a reminder of the cascading effects geopolitical events can have on local currencies and the broader economic landscape.

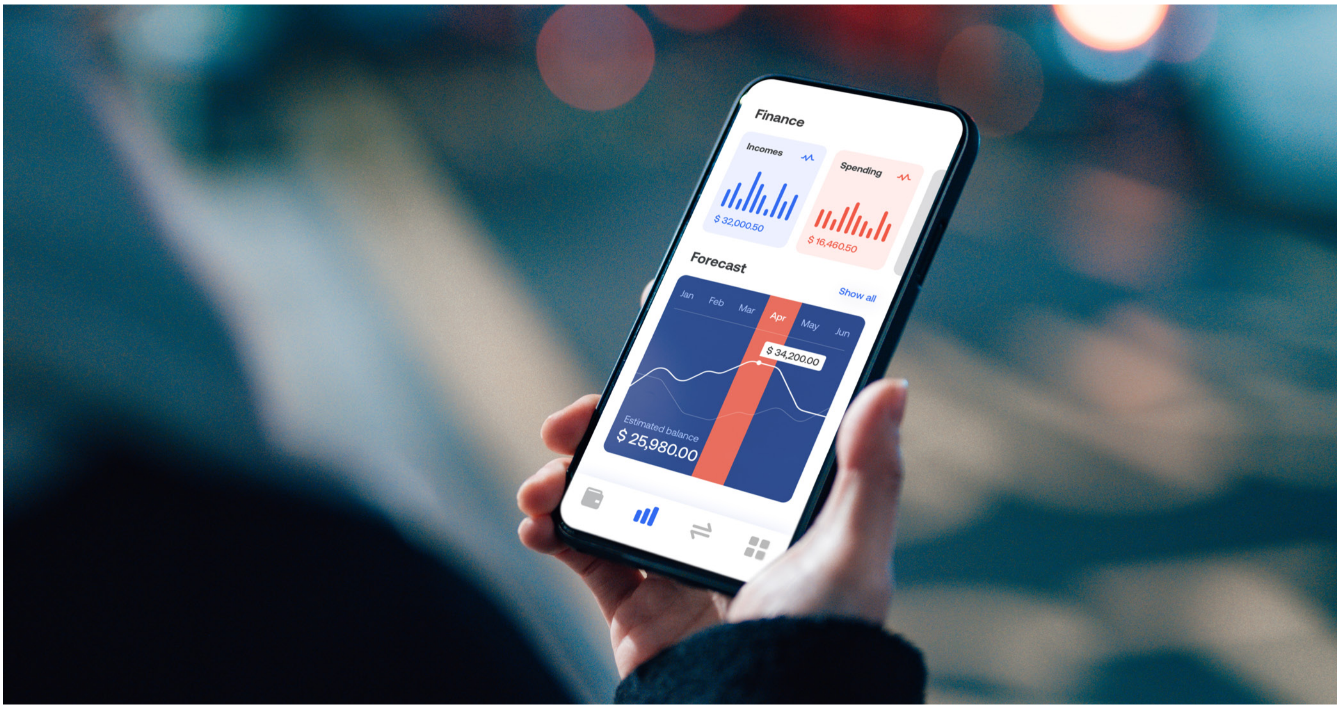
Gross Domestic Product (GDP)

Uganda's economy, amidst economic hurdles and adverse climatic conditions, demonstrated remarkable resilience, achieving a 5.3% growth in FY 2022/23. Particularly noteworthy was the robust real GDP growth recovery of 6.8% year-on-year in Q4 of FY 2022 /23, largely propelled by the services and industrial sectors.

The services sector, expanding at 8.8% in the same period, was complemented by strong results in the trade, accommodation, food, information & communication, and financial services industries. Despite these encouraging signs, there are indications hinting at a potential slowdown in economic activity in the initial quarter of FY 2023/24[8]. This is mainly due to global high inflation, tightening financial conditions and the Russian-Ukraine war which continues to obstruct economic activity.

Experts forecast continued growth in 2024, supported by robust capital investment. However, net exports are expected to continue dragging on headline growth. The development of Uganda's oil sector remains a significant driver of investment growth, with projects like the USD 10 billion Lake Albert Oil Project and the USD 4 billion East Africa Crude Oil Pipeline attracting substantial investment inflows. Fixed investment growth is anticipated to remain elevated in 2024, well above the 2012-2021 average, contributing significantly to headline growth. With the commencement of oil production anticipated in 2025, the construction sector's output is poised to remain robust in the upcoming quarters[9].

[7] Bank of Uganda, September 2023, State of the Economy Report
[8] Supra note 5
[9] BMI, Monday, December 11, 2023., Ugandan Growth Will Accelerate In 2024, Following Marked Slowdown In 2023.



Public Debt

Uganda's public debt reached Shs 89 trillion, approximately US$ 21.7 billion, by the end of December 2022. External debt accounted for 52% of Uganda's public debt, while domestic debt which stood at Shs 33 trillion, approximately US$ 8.9 billion accounted for 48%[11]. Uganda's public debt is projected to increase by 10% by the end of 2024[12].

Uganda's debt-to-GDP ratio stood at 48.3% as at December 2023[13]. This ratio may only be considered relatively sustainable for Uganda, if the country maintains a stable economy and manageable debt repayment capabilities. However, sustainability depends on various factors such as the country's ability to generate revenue, manage expenditures, attract investment, and maintain economic growth. Additionally, factors like political stability, external shocks, and access to international financial markets also play a significant role in determining this debt sustainability[14].

In October 2023, the Government conducted treasury bill and bond auctions, successfully raising Shs 1,137.67 billion. Notably, a substantial portion of this amount, Shs 686.14 billion (60%) of the funds raised were allocated towards refinancing maturing domestic debt, in order to demonstrate effective public debt management by the Government[10].

In its quarterly State of Economy report for December 2023, the Bank of Uganda expressed concern over the increasing public debt. The public debt repayments are exerting pressure on revenue collections with interest payments and external debt principal repayments taking up UGX 32 for every UGX 100 collected in form of tax revenue, thus diminishing resources available for service delivery.

In an effort to maintain debt sustainability, Government has committed to several strategies, including enhancing the effective implementation of the Domestic Revenue Mobilization Strategy ("DRMS") to bolster the capacity for increasing domestic revenue collection and streamlining expenditure by reallocating resources from lower priority areas to support fiscal consolidation.

Additionally, Government aims to explore new sources of financing, including climate and green financing, leveraging private equity for infrastructure investments, and expanding Public Private Partnerships (PPPs), while also exploring non-traditional innovative funding structures and identifying appropriate credit enhancement mechanisms.

Furthermore, Government plans to restrict non-concessional debt to high-impact, high-return projects such as Standard-Gauge railway projects, industrial park development, power transmission lines, water for production initiatives, and tourism road projects, while mitigating domestic borrowing to alleviate pressure on the domestic debt market and maintain fiscal stability[15].

[10]Ministry of Finance, Planning and Economic Development, October 2023, Performance of the Economy.

[11]Matia Kasaija, Minister of Finance, Planning and Economic Development, "Full Monetisation of Uganda's Economy through Commercial Agriculture, Industrialisation, Expanding and Broadening Services, Digital Transformation and Market Access", (Budget speech financial year 2023/2024)

[12]https://www.statista.com/statistics/531996/national-debt-of-uganda/

[13]Supra note 11

[14]

[15]Ibid

Foreign Direct Investment (FDI)

FDI contributes over 4% of Uganda's gross domestic product (GDP). This is still below the averages of 5.4% and 5.5% for low-income countries and Sub-Saharan Africa respectively[16].

According to Bank of Uganda, FDI increased by 37% to $1.4 billion in 2022 compared to $911 million in 2021. The growth in FDI was influenced by oil sector project-related spending. Bank of Uganda forecasts that investments in the sector will average $2 billion annually until first oil is achieved in 2025[17].

The positive impact of FDI on Uganda's economic landscape is evident in various sectors. Increased investments in energy infrastructure have not only bolstered the nation's power generation capacity but also paved the way for industrial expansion[18]. Additionally, FDI in agriculture has facilitated modernization, improved productivity and supported the livelihoods of local communities.

The diversification of FDI sources further enhanced Uganda's economic stability. Collaborations with both traditional and emerging partners showcased the attractiveness of Uganda's investment climate on the global stage. This diversity in FDI sources helped mitigate risks and provided the nation with a robust platform for economic development.

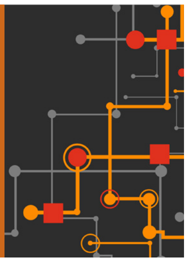
Conclusion

The macro-economic developments showcase a robust foundation, driven by diverse sectors, yet not immune to global uncertainties. Inflationary pressures, though showing remarkable control, emphasise the delicate balance required for economic stability given the price the economy is paying through higher borrowing costs. Exchange rate dynamics reveal the interconnectedness of Uganda's economy with the world, while GDP growth re-echoes resilience amid challenges.

The nuanced insights provided herein underscore the importance of proactive economic management. The commitment to fiscal consolidation, interventions to stabilise exchange rates, and strategies to manage public debt are critical components of Uganda's economic narrative. As the nation moves forward, understanding these intricacies becomes paramount for policymakers, investors, the business community and the general public alike.

[16]The World Bank (2021). Uganda's Investment Reform Map: Preliminary Analysis and Findings.
[17]https://www.state.gov/reports/2023-investment-climate-statements/uganda/
[18]Qursum Q, Uller H., 2022. Foreign direct investment in Uganda: An untapped opportunity for economic recovery

4



Hilda Kamugisha

Jackie Nampala

Financial Services

The financial services sector remains dominated by the banking sector, with a considerable contribution by financial technology companies (FinTechs). Other players include insurance, microfinance, and investment institutions.

The sector demonstrated remarkable resilience during and following the recent economic challenges triggered by the Covid-19 pandemic and other factors such as the Russia-Ukraine war.

The increase in cybersecurity and financial crime led to concerted efforts, including forging of partnerships to combat the impact on the institutions and the sector.

Prior to and following the Covid-19 pandemic, financial institutions developed relevant and targeted products and entered strategic partnerships to address their customers' rapidly evolving needs and expectations. Some of the products and initiatives undertaken in this regard, include the adoption of financial services technologies.

Whilst the reliance on digital platforms enhances efficiencies in key processes, it also increases the inherent platform risk faced by organisations cybersecurity and financial, reputational and regulatory damage.

To combat cybercrime and fraud risks, there have been several collaborative industry-focused data privacy and cyber security awareness campaigns undertaken by sector players, including the Uganda Bankers Association (UBA) and FinTechs to sensitize the public on the right to privacy in relation to their financial and personal information.

According to a recent global survey by PwC on economic crime[19], 28% of the respondents in East Africa reported experiencing increased risk in cybercrime as a result of the COVID-19 pandemic (in line with 29% globally). This has the implication that although fewer businesses experienced the event of cybercrime as a new crime because of the pandemic, COVID-19 created fault lines within the organisations that were already vulnerable. These fault lines could be exploited in the future.

The report highlighted some detection and prevention measures for cyber related fraud, including, implementation of multiple techniques that combine technology, processes, and people.

Some of the strategies that individuals and organisations can deploy to protect their assets from cyber threats include:

- Security awareness and skills training
- Data protection and data loss prevention
- Identity and access management (system level and physical)
- Continuous vulnerability management
- Network monitoring and defence, inventory and control of enterprise and software assets
- Incident response management.

[19]PwC's Global Economic Crime and Fraud Survey 2022: Eastern Africa Report - Protecting the perimeter: The rise of external fraud

It was noted that sophisticated prevention methods are required to defend against the rising professional perpetrators who are sophisticated and invest time in continuously updating their modus operandi, enabling them to adapt their methods to the enhanced measures organisations are implementing.

The implementation of IFRS 17 created a significant shift in the insurance services industry

After several years of grace and transition, IFRS 17 Insurance Contracts took effect from 1 January 2023, replacing IFRS 4. Under IFRS 4, entities could use various accounting practices for insurance contracts, reflecting national accounting requirements and variations of those requirements, subject to limited improvements and specified disclosures. Many of such policies resulted in lack of useful financial information and hindered proper understanding of the performance of an entity[20].

IFRS 17 seeks to promote consistent and detailed disclosures in relation to insurance contracts and in turn enhance investor due diligence and confidence. Under IFRS 17, entities will be required to do the following:

- Identify as insurance contracts those contracts under which the entity accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder if a specified uncertain future event (the insured event) adversely affects the policyholder.
- Separate specified embedded derivatives, distinct investment components and distinct performance obligations from the insurance contracts.
- Divide the contracts into groups that the entity will recognise and measure.
- Disclose information to enable users of financial statements to assess the effect that contracts within the scope of IFRS 17 have on the financial position, financial performance and cash flows of an entity.

The impact of IFRS 17 on the earnings of insurance companies is yet to be ascertained as many entities continue to seek guidance on its application and how best to structure their compliance strategies.

In order to ensure accuracy and the smooth implementation to IFRS 17, entities will need to deploy the relevant resources, such as finance, accounting, risk, and actuarial professionals to advise them on their implementation of the Standard.

The gains and lessons from the First National Financial Inclusion Strategy (NFIS I) (2017-2022) are likely to bolster stakeholder confidence and result in even greater achievements under the next strategy

Financial inclusion is a key factor in the development of a vibrant, effective and sustainable economy. The First National Financial Inclusion Strategy was developed with a vision to improve financial security for all Ugandans by enhancing their access to and use a broad range of quality and affordable financial services.

Through its financial literacy programmes and efforts to create an enabling environment for the development of digital financial services, the Central Bank has continued to promote financial inclusion in Uganda.

The NFIS II (2023-2028) was recently developed with a vision to enable universal access and usage of formal financial products delivered and sustainably. The strategy aims to increase the number and variety of financial products for the unserved and underserved market segments in the sector. Further, there will be emphasis on expanding and rolling out the existing internet and digital infrastructure to enable the adoption of digital financial services in unserved and underserved areas.

Under the strategy, some of the initiatives to deepen and broaden the usage of quality and affordable formal financial products include facilitation and promotion of development of best practices in collateral management, as well as efficient credit information

[20]IFRS 17 Implementation Guidance, Revised, Certified Public Accountants, May 2023

markets. This will reduce the credit risk in the sector owing to the poor management and deterioration in the value of collateral, which particularly affects agricultural lending.

Financial consumer protection and financial literacy remains a key pillar of the strategy. This will be enhanced by developing and implementing a comprehensive consumer protection legal framework and promoting financial literacy. The promotion of green finance will also continue under the new strategy.

The success of the strategy will greatly depend on effective collaboration between the public and private sector, as well as development partners and stakeholders, to innovatively adopt its principles in their strategies.

With effect from 1 December 2023, debtors in the sector received the long-awaited saving from the early loan repayment charges

Following discussions between the Central Bank and players in the sector, the decision to terminate the penalties for early loan settlement was finally reached. Debtors can now repay their loans earlier than the scheduled date without being penalised.

This is expected to reduce the cost of credit and to facilitate access to affordable credit restructuring options, such as the transfer of loans to institutions offering lower interest rates from time to time. It will also enhance financial institutions' loan recovery prospects and potentially reduce the number of non-performing loans.

Banks are liable to withhold tax on charges paid to their corresponding banks

Following a ruling by the Tax Appeals Tribunal in November 2023[21] corresponding banks will be subjected to tax in Uganda with respect to the charges paid to them by banks in Uganda.

IFRS 17

Insurance Contracts took effect from 1 January 2023, replacing IFRS 4.

[21]Absa Bank Uganda Limited Vs Uganda Revenue Authority (Tax Appeals Tribunal Application No. 57 of 2021)

5


Sophie Kayemba


Georgina Kirabo

Energy

Uganda is endowed with abundant natural resources which serve the country's energy needs. These mainly include hydro power, biomass, solar, geothermal heat, pear, mineral resources, and fossil fuels.

Currently, Uganda's energy sector is predominantly dependent on biomass from wood fuel (93%), petroleum products (5%) and renewable energy (2%). (2023 Energy Review Report)

The country's energy resource potential includes an estimated 2,000 MW of hydro power, 450 MW of geothermal, 1,650 MW of biomass cogeneration, an average of 5.1 kWh/m2 of solar energy, and about 250 Mtoe of peat (800 MW). In addition, petroleum at an estimated 6.5 billion barrels, of which 1.4 billion barrels are recoverable, was discovered in the Albertine Graben.

Whereas Uganda has considerable renewable energy resources, these are not fully exploited, thus exacerbating the demand for cheaper wood fuel.

The country still faces widespread energy poverty attributed to acute power shortages, increased demand, and high cost of energy. Therefore, access to affordable and sustainable clean energy and diversifying the energy mix remains a key priority.

Under the Vision 2040 agenda, supported by various government plans and initiatives such as the recently launched Energy Transition Plan and the Energy Policy 2023, the Uganda government has set out an ambitious agenda to develop its energy and mineral resources, promote economic development, end energy poverty, and lead the country to a just energy transition.

The NDP III contains two programs directly related to the energy sector. These include sustainable development of petroleum resources, and energy development; while sector related development strategies include fast tracking oil, gas, and mineral-based industrialisation, and increasing access to stable, reliable, and affordable energy.

The country is increasingly adopting clean energy initiatives to tap into its vast renewable energy potential.

Oil & Gas

Currently, Uganda imports all its petroleum products. Since the country's first commercial oil discovery in 2006 in the renowned Albertine Graben in the Lake Albert basin, Uganda has made various initiatives to fully realise the development of its fossil reserves.

The NDP III sets out to achieve the following petroleum-related infrastructure construction projects for the 5-year period ending 2024/25:

- the East African Crude Oil Pipeline;
- an oil refinery at Hoima;
- a gas pipeline;
- bulk oil storage facilities;
- an airport for the Albertine Graben.

Upstream Operations

In the upstream, oil & gas development and production in the Albertine Graben is operated through a joint venture between TotalEnergies E&P Uganda B.V., China National Oil Corporation (CNOOC), and Uganda National Oil Company (UNOC) at the Tilenga and Kingfisher sites.

According to the Petroleum Authority of Uganda, the drilling of production wells for the Kingfisher and Tilenga oil production projects is proceeding as planned in preparation for commencement of oil production in 2025. Key infrastructure developments, estimated at about US$ 15 billion are already underway. These include Central Processing Facility (CPF), well pads, flowlines, lake water abstraction, and other vital components.

Based on current reserves, oil production in Uganda is expected to peak at 230,000 barrels of oil per day.

The crude oil from the Albertine Graben is generally medium to heavy, sweet, waxy, and viscous; and unless heated at the right temperatures, it solidifies at room temperature.Transportation of this oil therefore requires a heated pipeline..

As Uganda looks forward to first oil in 2025, exploration for new finds continues.

Apart from the Albertine Graben, there are at least five other sedimentary basins in Uganda, including Hoima, Lake Kyoga, Moroto-Kadam, Lake Wamala and Lake Victoria. Geological, geochemical, and geophysical surveys are currently being undertaken in the Moroto-Kadam basin.

Various exploration licences have been issued to various companies including Armour Energy Limited,Oranto Petroleum Limited, DGR Global for the Turaco block; and to state owned UNOC for the Kasuruban block. UNOC is required to first find a suitable JV partner within the first exploration period for this particular block.

So far, only about 40% of the Albertine region has been explored; and there is potential for more exploration.

Currently, there is no production of natural gas in Uganda, although the country's estimated gas resources include 7.1 billion cubic metres (bcm) of associated gas and 9.5 bcm of non-associated gas.

Both the Tilenga and Kingfisher projects are expected to produce some gas associated with their oil output, and both projects plan to use this gas to generate on-site power and produce Liquified Petroleum Gas (LPG) for the local market.

Additionally, the Governments of Uganda and Tanzania have agreed to work towards developing a natural gas pipeline from Tanzania to Uganda to supply natural gas for the iron and steel industry as well as for domestic and commercial uses.

Midstream operations

In the midstream, the upstream production JV partners, in partnership with the Tanzania Petroleum Development Corporation (TPDC), are developing the East African Crude Oil Pipeline (EACOP).

The 1,443 km pipeline, which will be the world's longest heated crude oil pipeline, will stretch from Uganda's Lake Albert oil fields to Chongoleani, a peninsula near Tanga, Tanzania. About 20% of the pipeline will be in Uganda.

The US$ 4 billion investment project, set to be operated under the EACOP Company, will include a 24-inch insulated and buried pipeline, six pumping stations, two of which will be in Uganda, two pressure reduction stations, and a marine export terminal in Tanzania.

Once topsoil and vegetation have been reinstated, people and animals will be able to cross freely along the entire length of the pipeline.

The pipeline is expected to transport approximately 246,000 barrels of oil per day and to have a ripple effect on various sectors in both Uganda and Tanzania.

Despite the opposition and criticism that has been staged by various regional and international civil society organisations regarding the expected adverse environment and social impact of the EACOP pipeline, the Government remains steadfast and on course with the project, citing the potential that the pipeline and the oil and gas operations in general have to lift the country out of abject poverty and drive the country to middle income status.

Developments of the oil refinery at Kabaale Industrial Park in Hoima District, which is expected to add value in the petroleum supply chain and reduce Uganda's reliance on imported oil products, stalled after Government resolved not to extend the Project Framework Agreement with the Albertine Graben Energy Consortium which expired on 30th June 2023. In February 2024, the government selected Alpha MBM Investments from the UAE as the preferred bidder for the US$4 billion project.

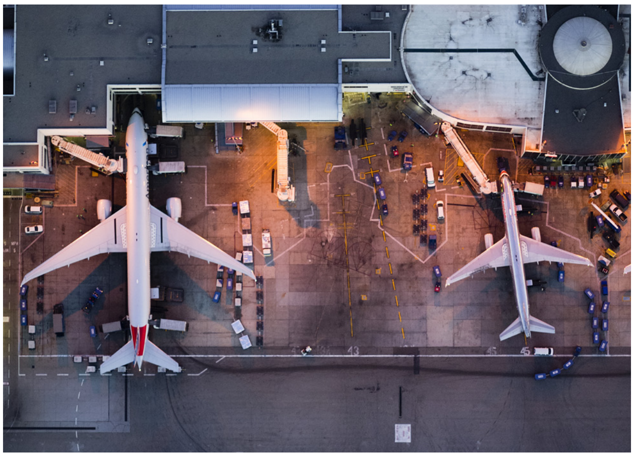
Once built, the refinery, which is expected to process 60,000 barrels of oil per day; will be expected to have the first call on crude oil produced in Uganda; the balance of which will be transported through EACOP.

The Kabaale International Airport, which is being constructed to ease transportation of equipment for the oil and gas operations, is at 98% completion. Cargo plane landing tests were expected to be completed in December 2023 before the airport can be commissioned to start accommodating planes.

Overall, there are many various opportunities for individuals, and companies, both local and foreign to participate in Uganda's oil and gas sector.

These opportunities range from skilled, semi-skilled and skilled labour for individuals; as well as providing goods and services to the various contractors and sub-contractors.

To ensure the economic benefit from the project's construction is spread widely, Uganda has set National Content Development targets which mandate that at least 40% of the amount spent remains within Uganda through the use of Ugandan goods and services and by training Ugandans to undertake the work.



The government is also encouraging intersectoral-sectoral linkages between the oil sector and other sectors of the economy such as manufacturing, agriculture, tourism and hospitality not only boost local businesses but also to drive overall growth.

Suppliers seeking to provide goods and services to the oil and gas sector are required to register on the National Supplier database.

Downstream operations

Until recently, Uganda's oil & and gas operations have been patronised by several oil marketing companies (OMCs) that import and distribute various petroleum products.

In December 2023 however, the Petroleum Supply Act was amended to authorise UNOC as the sole importer of petroleum products, which will subsequently be distributed to the OMCs.

The objective of this is to ensure security and sustainability in the country's fuel supply; and also shield Ugandans from fuel cartels that have historically influenced pricing, causing financial strain for citizens at the pump.

Going forward, UNOC is expected to import directly from an international oil company and supply to the Ugandan OMCs, eliminating several intermediaries.

To implement this, as part of the procedural requirements in Kenya, UNOC embarked on the registration of a branch in Kenya and is still trying to overcome other compliance hurdles before it can be granted a petroleum import licence by Kenya's Energy and Petroleum Regulatory Authority.

As the frustration in navigating Kenya's hurdles mounts, UNOC has initiated discussions to transport the oil through Tanzania. Technical teams on both sides are reviewing the modalities around tax waivers to reduce the cost of using the Tanzania route, the mode of transportation to be used, and volumes to be shipped.

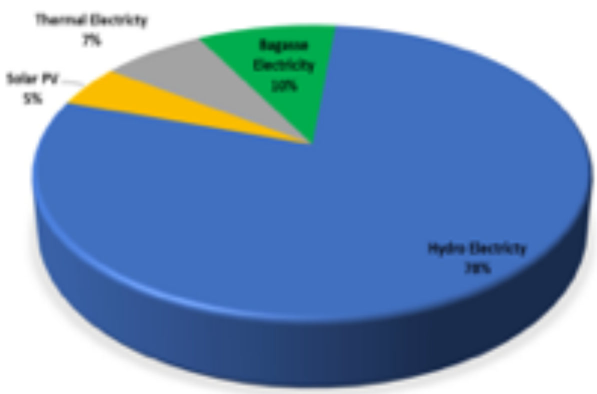
The legislation, previously expected to take effect in January 2024, and pushed to February 2024 is now behind schedule. As discussions with the Tanzania government progress, we expect greater focus to be given to bringing down the cost of using the Tanzania route if Uganda is to realise the intended objective of this initiative i.e energy stability, security, and a drop in pump prices in Uganda.

Renewable energy

Although Uganda's renewable energy accounts for only around 2% of total energy use, almost all Uganda's electricity is generated from renewable resources. The country's overall renewable energy power generation potential is estimated to be 5,300 MW.

Based on various surveys, the total potential for electricity generation from Uganda's renewable resources is around 12 000 MW, of which only 15% has been developed. About 33% of potential capacity is large hydropower and over 40% is solar PV.

As at 2022, most of Uganda's energy was generated from hydro-power plants constituting 78% of the total energy, followed by sugar cane bagasse fired plants at 10%, geothermal plants at 8%, and then solar PV plants at 5%.



Source: Electricity Regulatory Authority

Hydro power

Currently, Uganda hydropower sector is the country's largest source of renewable electric energy, accounting for slightly less than 1,500 MW, or 95% of total installed capacity as at 2023.

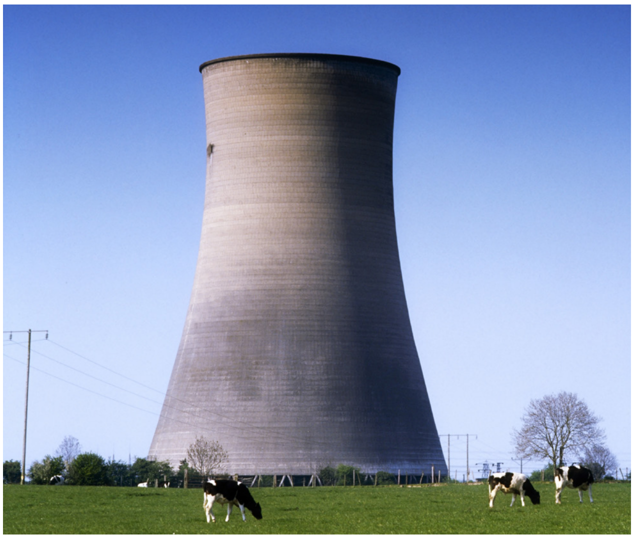
According to the 2023 Energy Policy Report, Uganda's potential hydropower capacity is 4,100 MW. According to the MEMD, only a quarter of this has been developed.

The country's largest hydro power plants include: Bujagali (250 MW), Kiira (200 MW), Nalubaale (180 MW) and Isimba (183.2 MW). These are run by the Uganda Electricity Generation Company Limited (UEGCL).

The 600 MW Karuma hydro power plant, also now under UEGCL, is expected to open in September 2024, and is expected to increase Uganda's hydro power capacity to 2000 MW.

At the distribution end, Government has decided not to renew the 20-year concession with UMEME after the expiry of the concession in 2025.

Instead, following Government's announcement of power reforms in 2021, there are plans to re-consolidate the previously unbundled generation, transmission and distribution companies into a new, vertically integrated Uganda National Electricity Company. The government is still defining the details and timing of these reforms. The objective will be to increase access and affordability to electricity.



With support from the World Bank, Uganda is also preparing the Uganda Energy Access Scale-up project (EASP) which will support efforts to scale up access to electricity for households, communities, industrial parks and commercial enterprises and public institutions

Biomass

According to the Ministry of Energy and Mineral Development (MEMD), Uganda's estimated electricity-generating potential of biomass waste, including bagasse, maize cobs, rice husks, coffee husks and forestry waste, is 1,650 MW.

Whereas the use of biomass for electricity energy in households is still very low, its usage is picking up momentum and is now widely used for commercial and industrial purposes.

At least five sugar-processing plants produce power for their own use by burning sugar cane bagasse, a waste product from their operations; and are licensed to sell the excess power to the national grid.

The companies include Kakira Sugar Works, Kinyara Sugar Works, Sugar Corporation of Uganda Limited, Sugar & Allied Industries Ltd, and Mayuge Sugar.

As calls to plant more trees continue, efforts to curtail deforestation and land degradation driven by the rampant use of wood fuel are underway following the President's directive to ban the cutting of trees for commercial charcoal production in certain parts of the country in June 2023.

Nuclear energy

Currently, Uganda does not have nuclear power. However, various policy documents over the past decade have mentioned its future development.

The government, working with the International Atomic Energy Agency (IAEA), is looking to develop a 1,000 MW nuclear power plant by 2031 and another plant by 2040 in anticipation of rising demand.

Geothermal

Uganda geothermal energy remains largely untapped.

According to Vision 2040, Uganda's geothermal resources are estimated at about 1,500 MW; with the main geothermal prospects located at Katwe, Buranga and Kibiro and Panyimur, in the Rift valley.

As part of its ambition to achieve net zero by 2050, in 2023, TotalEnergies E&P also signed an MOU with the Government to develop 1,000 MW of renewable energy by 2030 in the form of solar, wind or geothermal.

Overall, the main challenge facing the development of Uganda's fossil reserves is the significant resource uncertainty and risk that private investors bear due to lack of detailed data. The government is stepping up its efforts in airborne and magnetic geophysical and logical mapping and data to reduce this risk.

Solar photovoltaic (PV)

Uganda has huge solar energy resources but this remains largely unexploited due to high connection and maintenance costs.

Currently, Uganda has four grid-connected PV, privately owned, solar electricity generating plants. These include: Soroti Solar Power Station, Tororo Solar North Power Station, Kabulasoke Solar Power Station, Mayuge Solar Power Station.

In December 2023, Government also signed an MoU with the United Arab Emirates to set up a 1000 MV solar plant in Bulambuli district.

Despite the challenges, according to GiZ, solar energy in Uganda still has the highest adoption rate among all renewable energy options. It is therefore unsurprising that solar energy has been identified in the recently launched Energy Transition Plan as Uganda's leading source of low-cost generation.

As such, we expect more investments in this area as the country sets towards achieving net zero and a more sustainable energy mix.

Mining

Mining in Uganda began in the early 1900s with a focus on gold. Commercial production of copper started in the 1950s, and by the 1960s, mining accounted for 30% of Uganda's exports. The country's mining industry declined after the Kilembe copper mine ceased operations in the 1980s. Since then, mining operations have largely been driven by artisanal miners. Gold, however, remains the country's main mineral export.

The government has developed new mining policies and laws; and is driving efforts to strengthen the legislative framework and revamp the sector. These changes were mainly around the Mining and Mineral Act, 2022, the Mining and Mineral (Licensing) Regulations 2023, and the International Conference of the Great Lakes Region (ICGLR) Regulations 2023.

In addition, Government is conducting geophysical and geological mapping to identify exploitable mineral reserves across the country to provide sufficient data for mineral exploration, development, and production.

Uganda has discovered deposits of minerals critical for the worldwide transition to cleaner energy systems, including copper, cobalt, graphite, and rare earth elements.

The minerals produced include Limestone, pozzolana, vermiculite, and gold.

As international interest in critical minerals and rare earth minerals increases, in the recently launched Energy Transition Strategy, Uganda has set out to promote and attract investments to exploit the critical minerals. These include lithium, cobalt, nickel, manganese, rare earth elements, platinum, and aluminium, among others.

Efforts to redevelop the Kilembe Copper Mines are underway, and Government is sourcing a new developer to revamp the mines through production sharing.

In 2023, with the enactment of the new Mining Act, Government started plans to set up the state-owned mining company, the Uganda National Mining Company, which will hold a 15% interest in all medium and large-scale mines.

Key issues facing the mining sector remain lack of clear guidelines and procedures to propel holistic developments in the sector.

The disparities in application of legislations around taxation of processed and unprocessed gold, as well as the ban on export of unprocessed precious minerals including tin, tungsten, tantalite, and gold, although aimed at local value addition and industrialisation, are a key deterrent to large investors.

Whereas the new Act and Regulations are expected to streamline these issues, there is need for more stakeholder engagement and sensitization, as well as a review of the various legislative instruments and enactment of institutional organs to support the overall growth of the mining industry.

Eyes on the target: Sustainability

While recognising the country's high energy needs which necessitate the development of fossil fuel resources and other energy sources to support its economic growth, there is a high focus on balancing energy, security, climate action and sustainable development locally and internationally.

As such, in the midst of Uganda's energy development agenda, is also a focus on sustainability which emphasises aspects such as national content or local content; decarbonisation, environment, social and governance (ESG), and net zero.

In 2023, Uganda set out a new net zero energy plan to meet key economic, social and climate goals at the recently concluded COP28 in Dubai. The new plan for the energy sector paves out a robust pathway to meet Uganda's economic growth and development objectives in a secure, affordable, and sustainable way.

The analysis, carried out with the support of the International Energy Agency (IEA), shows that implementing this plan would allow Uganda to meet its nationally determined contribution to the Paris Agreement in 2030 and be in position to reach net zero emissions from its energy sector by 2065. This opens the door for Uganda to set an economy-wide climate neutrality target for around the same year. With this new transition strategy, Uganda has started the journey to move away from fossil-fuel-backed production, or what is generally referred to as decarbonizing.

At the heart of all this, is the drive by private sector players to embed ESG initiatives in their end-to-end business operations to create a sustainable business operating environment.

As international attention to climate-related finance increases, so does focus on how countries like Uganda can participate in the international carbon markets to generate and trade carbon credits to drive foreign inflows by strengthening the commercial viability of projects, as well as supporting foreign investors' owning their carbon reduction targets

In this bid, the Uganda government has established the National Climate Change Mechanisms Taskforce to create a framework to include guidelines and regulations on both Article 6 and voluntary markets, with support from the United Nations Development Programme (UNDP).

Backed by its fast-growing population and the need to propel the economy into an industrialised economy and into middle income status, Uganda's energy demands are projected to increase. Thus, the current and future opportunities in the energy sector are immense.

Transparency, good governance, and adherence to best practice will ensure that the energy sector is a key driving force to the nation achieving its Visions 2040 agenda.

6


Trevor Lukanga


Stella Nakazibwe

Key Legislative Changes

Over the past calendar year, 2023, Parliament passed several legislative changes that affect the economy and may have a significant impact on business operations. Below are some of the key highlights of the recent legislative changes:

Anti-money laundering

One of the Government's initiatives towards reforms in the legal landscape relates to anti-money laundering and counter terrorism financing. As a result there were amendments to the Companies Act, the Partnerships Act, the Trustees Incorporation Act and the Cooperative Societies Act to cater for beneficial ownership identification.

The amendments were done to combat money laundering and financial crime as well as ensure that these changes provide a roadmap for Uganda to get off the Grey List of the Financial Action Task Force. A beneficial owner is defined to mean a natural person on whose behalf a transaction is conducted in a legal entity and includes a natural person who exercises ultimate control over that entity.

The law requires all business entities with beneficial owners to register their particulars including the name, address, passport details, degree of control / ownership with the particular regulatory body.

Currently, financial institutions holding client accounts belonging to different businesses have notified their customers to furnish this information in the form of filed forms from the respective regulatory bodies to fulfil this requirement. Failure to do so has led to customer accounts being blocked until an update of their beneficial owners' information is completed.

Financial Institutions (Revision of Minimum Capital Requirements) Instrument, 2022

A Statutory Instrument ("SI") was issued by the Minister of Finance in November 2022 requiring banks to increase their minimum capital to UGX 150 billion by 30 June 2024. The SI requires the banks to consider various funding sources including their current retained earnings, other reserves and issuance of new shares among others to meet the capital requirements.

Foreign Exchange (Amendment) Act, 2023 ("FEA")

The FEA increased the minimum paid up share capital of a money remittance business to UGX 200 million from UGX 50 million. Similarly, this Act also increases the minimum capital of a foreign exchange businesses to UGX 50 million from UGX 20 million. This Act

also recognises the advancements in technology by including virtual selling and buying of foreign currency to comprise a foreign exchange business.

Convention on Mutual Administrative Assistance in Tax Matters (Implementation) Act 2023 (“CMAAIA”)

The CMAAIA operationalised two international agreements in respect to tax matters that Uganda ratified in 2016 and 2021. These agreements are: a) The Convention on Mutual Administrative Assistance in Tax Matters (“CMAA”) and b) The Multilateral Competent Authority Agreement on Automatic Exchange of Financial Account Information (“MCAA - AEOI”) referred to simply as the Common Reporting Standard (“CRS”).

The CMAA widened the scope of exchange of tax information from just the 9 countries with whom Uganda has signed tax treaties to all signatories of the CMAA who were 147 member countries as of September 2023. Therefore, the Uganda Revenue Authority (“URA”) now has access to a lot more tax information than before.

The CRS created a reporting obligation for Financial Institutions with effect from 1 January 2024. Financial institutions such as banks, investment entities or a Specified Insurance Companies are now required to carry out due diligence on accounts held by non-resident individuals or reportable accounts. The information should be reported to the URA presumably by 31 May 2025 for due diligences conducted for the accounting period ending 31 December 2024.

The information reported on includes name, address, place of birth, account balance etc. This being an information exchange mechanism, the law now obliges the URA to obtain share such information, and automatically share with various tax jurisdictions.

Similarly, the URA can now obtain information on Ugandan residents in respect of their offshore investments from member countries who are enforcing the CRS. This means the URA now has better visibility of some offshore income derived by Ugandan residents and such income may be taxable if not already disclosed to the URA.

The Micro Finance Deposit-Taking Institutions Act, 2003 (“MDIA”)

The MDIA was amended to provide for Islamic banking, bancassurance and agent banking. This change is similar to the changes made to the Financial Institutions (Amendment) Act, 2016 and now aligns these products as provided by commercial banks and Micro-Finance Deposit Taking Institutions (“MDI”).

MDIs can now operate Islamic microfinance business and appoint a Shari’ah advisory board. However, it should be noted that the legal provision establishing the Central Shari’ah Advisory Council was repealed by the Financial Institutions (Amendment) Act, 2023.

The Mining and Minerals Act, 2022 (“Mining Act”) and related licensing regulations 2023

The Mining Act creates new classes of mineral rights that may be acquired while broadening the scope of applicants for mineral rights to include a registered corporate body, partnership, a cooperative society, a trustee, an association or any registered business.

The law gives regulatory power to the Directorate of Geological Surveys and Mines and establishes the Uganda National Mining Company to manage Uganda’s commercial holding and participating interests in mineral agreements.

UGX 200 million

The FEA increased the minimum paid up share capital of a money remittance business to UGX 200 million from UGX 50 million.

The Petroleum Supply (Amendment) Act 2023 (“PSA”)

The PSA designates Uganda National Oil Company Limited (“UNOC”) as the sole importer and supplier of petroleum products to the licensed oil marketing companies of petroleum products for the Ugandan market. The amendment was made on the basis that it will ensure competitiveness in consumer pump prices as well as provide efficient supply of petroleum products in the Uganda market.

Companies regulations

The Companies Regulations 2023 provide for several changes in regulation of companies and their compliance requirements. Some of the notable provisions include; re-registration of a company as a public, private, unlimited company and one limited by guarantee; registration of foreign companies, notice of cessation of business by foreign companies, striking defunct companies off register and deregistration of companies for non-compliance within the Companies Act.

The Competition Act, 2023 (“CA”)

The CA aims to promote and sustain fair competition as well as prevent practices that have an adverse impact on competition in Ugandan markets. In particular, the law seeks to prohibit anti-competitive practices and anti-competitive agreements, it protects consumers and smaller competitors from dominant industry players and provides for approval of mergers, acquisitions and joint ventures of a threshold that is yet to be prescribed by the Ministry of Trade.

Ongoing legislative changes

Other legislative changes in the process of being tabled by Parliament include;

The Rationalisation of Government Agencies (Repeals and Amendments) Bill, 2023 seeks to merge, mainstream and rationalize government agencies, commissions, authorities and public expenditure to facilitate efficient and effective service delivery. The main objective of the law would be to eliminate structural and functional duplications and overlaps, excessive expenditure and encourage short- and long-term savings. However, the closure of some agencies like the Rural Electrification Agency has already resulted in layoffs, redundancy and petitions from affected workers.

Lastly, the Alcoholic Drinks Control Bill seeks to regulate the manufacture, importation and sale of alcoholic drinks, regulate time for sale of alcoholic drinks and prohibit sale of alcoholic drinks to persons below the age of eighteen and packaging of alcohol in sachets and plastic bottles.

Accordingly, the above changes to the prevailing laws and the new laws will significantly impact on the way businesses operate in the economy and will continuously affect the regulatory environment.

About PwC

At PwC, our purpose is to build trust in society and solve important problems. We're a network of firms in 151 countries with more than 364,000 people who are committed to delivering quality in Assurance, Advisory and Tax services. Find out more by visiting us at www.pwc.com

Our History

The Ugandan firm of PwC (and its legacy firms) has operated in Uganda for over 60 years, serving a broad spectrum of clients. The firm is a full member of the network of PwC and has unrestrained access to the global network's vast resource base of proprietary knowledge, methodologies and experience.

Our Services

We offer a full range of services including assurance and audit, advisory services, tax compliance and tax advisory.

Our Contacts

Uthman Mayanja
Country Senior Partner
uthman.Mayanja@pwc.com

Dowson Kalemba
Partner, Assurance Government & Public Sector
dowson.kalemba@pwc.com

Cedric Mpobusingye
Partner, Assurance
cedric.mpobusingye@pwc.com

Clive Mayombwe
Partner, Assurance
clive.mayombwe@pwc.com

Pamela Natamba
Partner, Tax
pamela.natamba@pwc.com

Doreen Mugisha
Manager,
Clients & Markets Development
doreen.mugisha@pwc.com

www.pwc.com/ug