ALN

Investment Guide - Uganda

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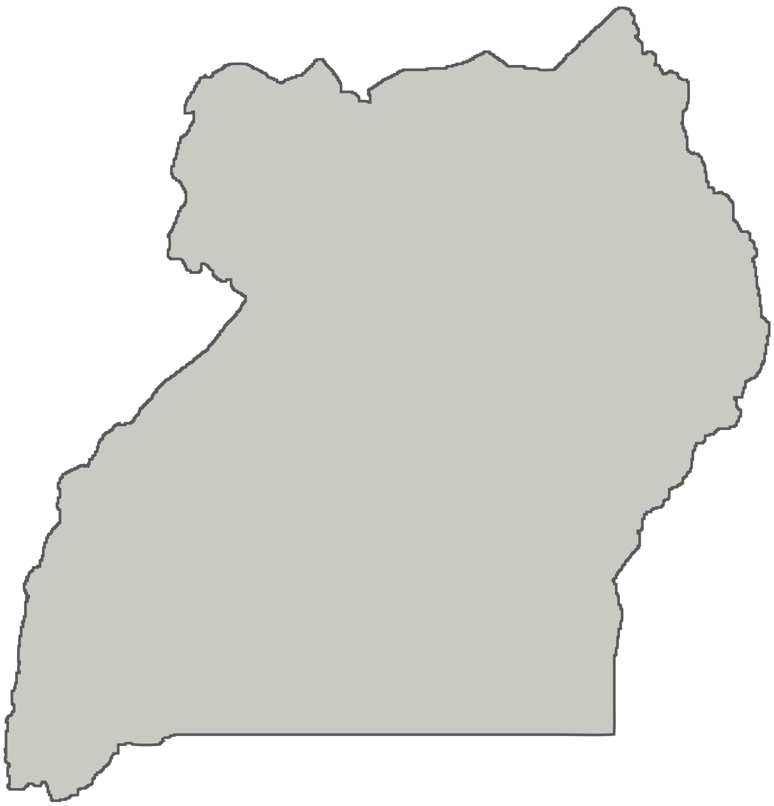
General Overview



Capital City: Kampala

Currency: Uganda shilling (**UGX**)

Languages: English and Swahili

Government: Unitary

President: Yoweri Kaguta Museveni

Population: 38.85 million (2014 estimate)

GDP: US$ 21.49 billion - (2013 estimate)

Timezone: GMT + 3

Political Overview

The Ugandan President is elected by universal suffrage every five years and acts both as the Head of State and Head of Government. The President appoints a Vice-President and Prime Minister to assist in the supervision of the cabinet. The Vice-President deputises the President. The Prime Minister is the leader of the government business in parliament and is responsible for coordinating and implementing government policies across ministries, departments and other public institutions. The national legislature is formed by the National Assembly: the majority of members are elected by universal adult suffrage, whilst the remainder represent special interest groups including youth, women, persons with disability and the army. The next presidential and parliamentary elections are scheduled for 2016.

Economic Overview

The Ugandan Government continues to adopt important policies to ensure economic rehabilitation and promote rapid economic development, and Uganda has won acclaim for its macroeconomic management in recent years. Uganda was the first country to be eligible for the Heavily Indebted Poor Countries **(HIPC)** initiative and had virtually all of its foreign debts cancelled by the IMF, World Bank and major donors.

For the financial year 2012/2013, the country recorded a 3.2% real GDP growth. The agriculture sector grew by 3.0%, growth in the services sector slowed by 3.1%, and by 1.1% in the industrial production sector. Despite the slow rate at which it is growing, the agriculture sector (including forestry and fishing) employs approximately 65.6% of the country's workforce. In addition, the Government has developed a Uganda Vision 2040 to operationalise the National Vision of a transformed Ugandan society from a peasant to a modern and prosperous country within 30 years. Uganda Vision 2040 is conceptualised around strengthening the fundamentals of the economy to harness the abundant opportunities including oil and gas, tourism, minerals, ICT business, abundant labour force, geographical location and trade, water resources, industrialisation and agriculture.

The economy is set to benefit from the planned start of oil production. The Government recently signed a memorandum of understanding with the oil companies on sustainable development of the discovered petroleum resources in the Albertine Graben. The MoU provides a framework for achieving a harmonised commercialisation plan for the development of the country's oil and gas resources. The plan includes the use of petroleum for power generation, supply of crude oil to the refinery to be developed in Uganda by Government and export of crude oil through an export pipeline or any other viable options to be developed by the oil companies. The commercialisation plan is based on the current discovered recoverable reserves in the country estimated at a range of 1.2 to 1.7 billion barrels of crude oil.

Regulatory Environment

Uganda generally provides an open climate for foreign investment. The 2015 Index of Economic Freedom ranks Uganda 9th out of 46 countries in sub-Saharan Africa with a score below the world average. Uganda has revised a range of laws and regulations to create greater government accountability, develop infrastructure, and build a more vibrant public sector. The Government has updated various laws, for example the Mortgage Act, 2009, the Partnership Act, 2010, the Insolvency Act, 2011, the Companies Act, 2012, the Capital Markets Authority (Amendment) Act, 2011, and legislation on e-commerce, pensions and intellectual property.

Following the oil discoveries, the Government revamped its sector oversight with the passing of two new laws including the Petroleum (Exploration, Development and Production) Act, 2013 which now effectively provides the framework for the exploration and production of petroleum. It is also considering passing legislation to govern public private partnerships.

Foreign investment is allowed in all sectors of the economy that are not national security related. Save as stated herein, companies may be 100% foreign-owned. In the oil and gas sector, where goods and services are required by a licensee or contractor are not available in Uganda, they must be provided by a company which has entered into a joint venture with a Ugandan Company which must hold at least 48% of the share capital in the joint venture.

Bilateral and Multilateral Treaties

Uganda is a member of, among others, the East African Community, the Common Market for Eastern and Southern Africa, the African, Caribbean and Pacific Group of States, the World Trade Organisation and the African Union.

Uganda currently has double taxation tax treaties with fifteen countries including Denmark, Egypt, India, Mauritius, Netherlands, Norway, UAE (pending), South Africa, United Kingdom, Seychelles (pending) and Zambia. The rate of tax generally under these treaties is either 10% or 15%. The Uganda tax regime has an automatic tax relief system for income of a resident person which is sourced outside Uganda and has also already suffered tax in that other country. This ensures that the individual is not subjected to further taxation in Uganda on income that has already been taxed elsewhere.

Investment Promotion

Institutions Governing Investment Promotion

The Uganda Investment Authority **(UIA)** was established under the Investment Code Act, (Cap 92) **(the ICA)** to contribute to the economic development of Uganda by promoting and facilitating private sector initiatives. It seeks to achieve this by promoting Uganda as an investment location, easing constraints on investment through its one-stop service and encouraging inward investment by offering competitive incentives.

Investment Incentives

A foreign investor in Uganda is required to obtain an investment licence from the UIA. A foreign investor is defined under the ICA as a company in which more than 50% of the shares are held by a person who is not a citizen of Uganda. A foreign investor qualifies for incentives under the ICA where the investor makes a capital investment or an equivalent in capital goods worth at least US$ 500,000 by way of capital invested. The Second Schedule to the ICA contains the priority investment areas for which additional benefits may be granted. Although this is provided for under the ICA, it is not done in practice.

The benefits that can be negotiated by or granted to the holder of an investment certificate are as follows:
- concessional rates of import duty for an investor who is importing any plant, machinery, equipment, vehicles or construction materials for an investment project;
- exemption from payment of import duty on one motor vehicle for personal uses, personal and household effects which the person owned and used outside the East African Partner State for at least twelve months. Such person must show that he is changing residence from a place outside the East African Partner State to a place within the East African Partner State ;
- incentives available generally for start-up businesses under custom laws, the Income Tax Act (Cap 340) **(ITA)** and the Value Added Tax Act (Cap 349); and
- drawback of duties payable on imported inputs used in producing goods for export as provided in the laws imposing such duties and taxes.

Tax

Income Tax

Resident companies and businesses are taxed on worldwide income. Non-residents are taxed only on Uganda-source income. A company or similar corporate entity is resident in Uganda if it is incorporated or formed under Ugandan law; management and control of its affairs are exercised in Uganda; or the majority of its operations are carried out in Uganda during the year of income. An individual is a tax resident if domiciled in Uganda, spends at least 183 days in any 12-month period, or is present for an average of at least 122 days during 3 consecutive tax years, or if that individual is an employee or official of the Government of Uganda posted abroad during that year of income.

Uganda's corporate tax rate is 30% for resident companies and branches of foreign companies. The rate for mining companies ranges. It is either 25% or 45% depending on the chargeable income.

Withholding Tax

Withholding tax of 15% is imposed on every non-resident person who derives any dividends, rent, natural resource payment, interest, royalties and management fees from sources in Uganda.
Withholding tax of 15% is imposed on a resident person deriving dividends and interest in Uganda. Withholding tax on interest payable to resident persons does not apply to:

a. interest paid by a natural person;

b. interest paid by a company to an associated company;
c. interest paid which is exempt from tax in the hands of the recipient; and
d. interest other than interest from governmental securities paid to a financial institution

Capital Gains Tax

Residents and non-residents in respect of a Ugandan branch are liable to income tax on gains arising from disposal of their non-depreciable asset (including a sale of shares in a private company). Those gains are included in gross income and treated as normal business income subject to income tax at the rate of 30%.

Other Tax

Value-added tax (**VAT**) is chargeable on taxable supplies of goods and services in Uganda and the import of certain goods. The standard rate of VAT is 18%. However, a zero rate applies to supplies including agricultural produce in an unprocessed state, financial services and insurance services limited to health insurance services, micro-insurance services, re-insurance services and life insurance services

Transfer Pricing and Thin Capitalisation

The Income Tax (Transfer Pricing) Regulations, 2011, applies to a controlled transaction if a person who is a party to the transaction is located in and is subject to tax in Uganda and the other person who is part to the transaction is located in or outside Uganda. "Controlled Transaction" means a transaction between associates. The Regulations require that transactions between associated persons be conducted in accordance with the arm's length principle.

The Income Tax Act, (Cap 340) contains provisions on thin capitalisation of foreign controlled resident companies. Thin capitalisation arises where a company, incorporated in Uganda is controlled by a non-resident person i.e. the foreign controller and has a foreign debt to foreign equity ratio in excess of 1:1 at any time during a year of income. In this case, a deduction is disallowed for the interest paid by the company during that year on that part of the debt which exceeds the 1:1 ratio (financial institutions are exempt from this legislation).

Stamp Duty on a Transfer

Stamp duty on any transfer is charged at a rate of 1% of the total value of the transfer. It is charged at nominal rates on a variety of financial instruments and transactions, for example, guarantees, loan agreements, deeds of assignment and novation deeds.

Double Tax Treaty with Mauritius

Uganda has a double tax agreement **(DTA)** with Mauritius. Under the DTA, dividends, interest and royalties paid to a person resident in Uganda by a Mauritian company are taxed at a rate of 10%.

Exchange Control

Foreign exchange repatriations from Uganda are not restricted. The Governor of Bank of Uganda may, however, impose such restrictions when he deems fit (there are no restrictions currently in place). All payments in foreign currency to, or, from Uganda between residents and non-residents or between residents are required to be made through a bank.

Imports and Exports

There are restrictions on importation and exportation of a number of commodities in Uganda, for example animal breeds and genetic material, wildlife species and specimens, importation of coffee into Uganda, petroleum and minerals. A person dealing in any of these products shall not import or export without obtaining a licence from the prescribed authority. The Protocol on EAC's Customs Union commenced in Uganda in January 2005. The Protocol provides for the elimination of customs duties and other charges on imports within the Customs Union as well as the removal of non-tariff barriers to trade among Partner States and the establishment and maintenance of a common external tariff in respect of all goods imported into the Partner States from foreign countries. This has seen growth in total intra-trade, total intra EAC exports and imports, cross-border investment and foreign direct investment

Accounting Principles

Financial statements of companies must be prepared annually. Uganda applies the International Financial Reporting Standards.

Industrial Relations

Uganda's Employment Act, 2006 imposes certain obligations on employers, ranging from tax, insurance and obligations arising out of specific labour laws. The Employment Act also details regulations regarding employment of children, discrimination, disciplinary proceedings, contract termination, working hours, severance payment and leave. The Labour Unions Act, 2006, is intended to regulate the establishment, registration and management of labour unions in Uganda. It implements the constitutional right of employees to organise themselves into a labour union. The Act prohibits an employer from interference with the employee's right of association in such a trade union.

The National Social Security Fund **(NSSF)** Act, (Cap 222) imposes an obligation on employers to pay a standard monthly contribution of 15% (10% being the employer's contribution and 5% being the employee's contribution) of the total wages of an employee to the NSSF. The pension's sector was liberalised in 2011 with the passing of the Uganda Retirements

Benefits Regulatory Authority Act, 2011. This law was enacted to remove the monopoly of NSSF as a national provident fund and allow for licensed retirement benefits schemes to operate and compete for mandatory contributions in an open market.

A person, who is not a citizen of Uganda intending to work in Uganda, is required under the Uganda Citizenship and Immigration Control Act, (Cap 66) to obtain a work entry permit, a certificate of permanent residence or special pass. A special pass is issued while the entry permit is being processed. The work permit once issued is renewed every year at a fee, with amounts varying depending on the nature of work.

Real Property

There are restrictions on the ownership of land in Uganda by non-Ugandan citizens, under the Constitution and the Land Act (Cap 227) **(LA)**. The LA prohibits non-citizens from acquiring freehold land and mailo land. They are, however, permitted to acquire leases not exceeding 99 years. The LA requires a lease obtained by a non-citizen for 3 years or more to be registered under the provisions of the Registration of Titles Act (Cap 230).

For the purposes of the LA, a "non-citizen" means a person who is not a citizen of Uganda); in the case of a corporate body, a corporate body in which the controlling interest lies with non-citizens; in the case of bodies where shares are not applicable, where the body's decision making lies with non-citizens, a company in which the shares are held in trust for non-citizens and a company incorporated in Uganda whose articles of association do not contain a provision restricting transfer or issue of shares to non-citizens. "Controlling interest" means in the case of companies with shares, the majority shares are held by persons who are not citizens and in the case of companies without shares, a company in which decisions are arrived at by the majority of members who are not citizens.

Competition

There is currently no general law regulating competition. This area is governed by contractual arrangements between the parties. The COMESA Competition Regulations, 2004 became operational in January 2013 with the establishment of the COMESA Competition Commission. There is still uncertainty about the jurisdiction of the COMESA Competition Commission in Uganda.

Consumer Protection

There are existing sectoral policies, legal and regulatory frameworks in place that have measures on consumer protection. The existing sectoral policies and laws on consumer protection are under the communications, electricity, dairy, pharmaceuticals, water, broadcasting, insurance, banking and standards and safety legislation.

Legal Forms of Incorporation in Uganda

The principal forms of business arrangements in Uganda are the (public/private) limited liability company, joint venture, sole proprietorship, partnership, trust and branch of a foreign company. The World Bank Group's "Ease of Doing Business Report 2015" ranks Uganda 150th out of 189 economies. On average, starting a business requires 16 different procedures. The table below provides a summary of the procedures and the associated completion time and cost for setting up a private limited company:

Procedure		Time to complete	Cost to complete
1	Reservation of a name at the Companies Registry	2 days	UGX 25,000
2	Pay fees at the bank	1 day	Included in previous procedure
3	Obtain statutory forms from the Uganda Bookshop (i.e. declaration of compliance (Form A2), particulars of directors and secretary (Form 7), statement of nominal capital (Form A1) and notice of situation of registered office and registered postal address (Form A9))	1 day	UGX 5,600 (UGX 500-700 for each form)
4	Obtain requisition for bank pay-in slip and bank payment advice forms from the Uganda Registration Services Bureau	1 day	No charge
5	Make payment of registration fees at a given bank	1 day	Bank charges (UGX 2,000 – UGX 2,500)
6	File with the Registrar of Companies	1 day	Payment is done under No 5
7	File with the local office at the Uganda Revenue Authority **(URA)** a personal inquiry form for each director, and a corporate preliminary inquiry form; receive a uniform tax identification number **(TID)**	3 days	No charge
8	Obtain corporate Tax Identification Number	7 days	No charge
9	Obtain VAT registration	7 days	No charge
10	An inspector from URA inspects the business premises	1 day	No charge
11	Apply for PAYE	1 day	No charge
12	Obtain application forms for trading licence	1 day	No charge
13	The licensing officer arranges an inspection of the premises and fills out an assessment form	1 day	No charge

Procedure		Time to complete	Cost to complete
14	Pay the licence fee at the bank	1 day	See the following procedure
15	Obtain clearance from the Ministry of Trade in case of companies controlled by non-citizens	2 days	No charge
16	Obtain the trading licence	1 day	License fees depend on the nature of business and its location
17	File a form with the National Social Security Fund **(NSSF)**	4 days	No charge
18	Make a company seal	2 days	UGX 360,000 – UGX 590,000

Industry Sectors

Agriculture

Despite their dwindling contributions to Uganda's GDP, the agriculture, forestry and fishing sectors provide approximately 65.6% of employment in Uganda. Uganda is Africa's second-leading producer of coffee, which accounted for about 22% of the country's total exports in 2014. Exports of non-traditional products, including apparel, hides, skins, vanilla, vegetables, fruits, cut flowers, and fish, are growing, while traditional exports such as cotton, tea, and tobacco continue to be mainstays.

Banking and Financial Services

Uganda's small financial system is dominated by banking, which is relatively open to competition and subject to minimal government influence. The banking sector is highly regulated by the Bank of Uganda. There are currently 25 licensed commercial banks with more than 496 branches and 714 ATMs. A majority of the banks are foreign-owned, and account for about three-quarters of total assets. Other financial institutions in Uganda are credit institutions, micro-finance deposit taking institutions, forex bureaus, money remitters, insurance companies, insurance brokers, leasing companies and development banks. Bank lending to the private sector has gradually increased. Overall, the banking sector is well capitalised and has no serious non-performing loan problems. Access to financial services has expanded across the country, and there is regulation in place for microfinance businesses.

The insurance sector supervised by the Uganda Insurance Regulatory Authority **(IRA)** remains small with limited market penetration and uptake of insurance products. There are currently 22 insurance firms, 26 insurance brokers and 17 loss assessors/adjusters in Uganda. There has also been a recent amendment to the Insurance Act (Cap 213) that prohibits the carrying out of life insurance business and non-life insurance business as a composite company. This has resulted in the licensing of 8 new life insurance companies. The required minimum paid up capital for insurance companies carrying out life business was increased to UGX 3 billion (approximately US$ 1,071,428) while that of insurance companies carrying out non-life business was increased to UGX 4 billion (approximately US$ 1,428,571). Consequently, the IRA issues different licences specific to either life of non-life business.

Capital markets are regulated by the Capital Markets Authority and remain relatively small and underdeveloped. Companies cross-listed from the Nairobi Stock Exchange (Kenya), account for the bulk of the market capitalisation on the Uganda Securities Exchange

Energy

Uganda has a total estimated electrical potential of 5,300 MW (Hydro – 2,000 MW, Mini-hydro – 200MW, Solar – 200 MW, Biomass – 1,650 MW, Geothermal – 450 MW and Peat – 800 MW). There has been an increase in the number of independent power producers this has led to a 22% increase in hydro-electric generation.

A 250 megawatts power plant at Bujagali falls was commissioned in October 2012. Currently, coverage has significantly grown to 15% nationally and in rural areas stands at 7%. Electricity consumption per capita has grown from 70 kilowatt-hour to 150 kilowatt-hour. Government hopes to have increased consumption to 22% by 2022. A number of projects including the 600MW Karuma HPP, 183 MW Isimba HPP and 600 MW Ayago HPP are aimed at achieving this goal. The Government of Uganda is also seeking investors for the construction of an additional 1,045 MW of electricity generating capacity in the next five years.

The Government is promoting small electricity projects as part of the renewable energy framework. 50 mini-hydro power sites with a combined capacity of 210 MW have so far been identified. The Energy Regulatory Authority (ERA) has published a list of sites which are available for intending investors on its website: **www.era.org**

Manufacturing

Uganda's manufacturing output has also been expanding by more than 10% annually over the last eight years. Opportunities exist in virtually all areas, ranging from beverages, leather, tobacco based processing, paper, textiles and garments, pharmaceuticals, fabrication, ceramics, glass, fertilisers, plastic/PVC, assembly of electronic goods, hi-tech and medical products.

Oil and Gas

Although the hunt for oil in Uganda dates back to the 1920s, the first commercial discovery was made in 2006. Exploration of oil in Uganda is underway. As at June 2014, 89 deep wells had been drilled in the Albertine Graben region (a region on the Uganda-DRC border) and 72 of these wells encountered hydrocarbons in subsurface. 69 of the 89 wells have been drilled by Tullow Oil Plc with an 84% success rate against the global average of 25%.

The Government of Uganda currently has 4 active Production Sharing Agreements in respect of 4 licensed exploration areas, which are all licensed to Tullow Uganda Limited, CNOOC Uganda Limited and Total E&P (Uganda) B.V. The Government also issued a production licence to CNOOC in 2013 and is currently considering applications for production licences for over 8 discoveries in the exploration areas operated by Tullow and another application over an exploration area operated by Total. In 2013, the Government passed the Petroleum (Exploration, Development and Production) Act, 2013 to regulate upstream activities and Petroleum (Refining, Conversion, Transmission and Midstream Storage) Act, 2013 to regulate midstream activities.

Over 17,400 square kilometers of the Albertine Graben remain open and would be available for licensing during a licensing round which will be announced following the enactment of a new regulatory framework.

Telecommunications

After a moratorium on new mobile telephone operator licences was lifted by the Government, the telecom sector has undergone a boom. There were approximately 19.8 million telecom subscribers by the fourth quarter of 2014. This has generated expanded coverage and telephone penetration throughout the country and prompted new competition and lower prices. There are currently 6 telecommunications companies in Uganda: MTN, Airtel, Orange, Uganda Telecom, Smart Telecom and K2 Telecom. Airtel acquired Warid in the second quarter of 2013.

The Government completed the laying of the fibre optic cable which cost US$ 106 Million. It is hoped that this will facilitate e-Governance as well as provide access to cheap internet access across the entire country. A new law to regulate the sector was passed – the Uganda Communications Act, 2013, to consolidate and harmonise the old laws governing the telecoms and electronic media sector, and to reconstitute one governing body for both sectors.

There have also been key developments in the broadcasting industry such as the migration from analog type television broadcasting to digital broadcasting. Digital broadcasting is aimed at improving the consumers' TV experience in terms of better sound and picture quality. It has been projected that the use of digital broadcasting will free up space in the frequency spectrum that can be used to provide more TV channels and others ICT services.

Tourism

Uganda's tourist industry offers many long-term opportunities, with a number of unique tourist attractions. These include Lake Victoria (the source of the Nile), the Murchison Falls and the Mountains of the Moon, along with a number of national parks and wildlife reserves hosting, among other fauna and half the world's mountain gorilla population. Except for Kampala and a few major towns, however, the tourism infrastructure is underdeveloped, although the number of visitors to the country has increased sharply in the past decade. In February 2014, the Single Tourist Visa was introduced by the East African Community. It is now operational in Kenya, Rwanda and Uganda. This will see a significant reduction in the fees paid by tourists to the East African countries.

Intellectual Property

Uganda's laws for the protection of intellectual property rights include the Trademarks Act, 2010 **(the TMA)**, the Copyright and Neighbouring Rights Act, 2006 **(the CNRA)** and the Patents Act (Cap 216) **(the PA)**. The authority for protection of intellectual property rights is the Uganda Registration Services Bureau headed by the Registrar General of Uganda.

The TMA provides for the registration, renewal and protection of trademarks in Uganda. The TMA repealed the Trademarks Act, (Cap 217). The most significant change under the TMA is the possibility to register service marks. The definition of sign or mark was expanded to include, any word, symbol, slogan, logo, sound, smell, colour, brand label, name, signature, letter, numeral or any combination of them.

The CNRA provides for the protection of literary, scientific and artistic intellectual works and their neighbouring rights. The author of any work shall have the protection of the work, where work is original and is reduced to material form in whatever method, irrespective of quality of the work or the purpose for which it is created.
The PA provides for the grant, registration and protection of patents in Uganda.

Uganda is a signatory to various World Intellectual Property Organisation conventions, including the Paris Convention for Protection of Industrial Property, the Patent Cooperation Treaty for protection of patents and the WIPO Convention to promote the protection of intellectual property throughout the world.

Dispute Settlement

The Arbitration and Conciliation Act (Cap 4) **(ACA)** provides for domestic arbitration, international commercial arbitration, enforcement of foreign arbitral awards and generally defines the law relating to conciliation of disputes in Uganda. Uganda is also a signatory to the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, 1958 (the Convention). Awards under this Convention are recognised and enforceable in Uganda upon registration in the High Court of Uganda.

Under the ACA, parties are free to determine the number of arbitrators. If the parties fail to determine the number, there shall be one arbitrator. An arbitrator may be appointed by the parties or by the appointing authority. The appointing authority under the ACA is the Centre for Arbitration and Dispute Resolution which facilitates the arbitration and mediation of commercial and other disputes.

Under the Investment Code Act (Cap 92), where negotiations for an amicable settlement have failed to settle a dispute between a foreign investor and the UIA or the Government, the dispute maybe submitted to arbitration in accordance with the following methods as may be mutually agreed between the parties:

a. in accordance with the rules of procedure for arbitration of the International Centre for the Settlement of Investment Disputes;
b. within the framework of any bilateral or multilateral agreement on investment protection to which the Government and the country of which the investor is a national are parties; or
c. in accordance with any other international machinery for the settlement of investment disputes.

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