

EXTRACTIVE SECTOR: UGANDA

ACODE

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A second report showing the transparency in Uganda's extractive sector has been launched. The second Extractive Index Transparency Initiative (EITI) report is dated June 2023.

The production and launch of the second Uganda Extractive Industries Transparency Initiative (UGEITI) report 2020-21 shows the significant strides Uganda is making in being accountable for activities in the petroleum and mining sector in the country.

Uganda was admitted to the EITI in August 2020 as a member country. Thereafter, the country embarked on producing its first EITI report, UGEITI Report 2019/2020. Uganda produced its first report in May 2022.

Uganda was admitted into the EITI following its fulfilment of the sign up requirements. These include; effective oversight by a multi-stakeholder group, timely publication of EITI reports, full government disclosure of all material payments to government by oil, gas and mining companies, taking steps on lessons learned and publicly accessible public reports. Uganda will undergo validation, beginning October.

The EITI requires member countries to disclose contracts and agreements signed between the Government and the companies involved in extracting and producing natural resources, including oil, gas and minerals.

EITI will build public trust through information disclosure, maximise revenues and minimise revenue leakages, as well as attract investment through applying international best practices in the management of extractives. EITI is an international standard for openness around the governance of oil, gas and mineral resources.

EITI is a global standard to promote the open and accountable management of natural resources. It seeks to strengthen government and company systems, inform public debate and enhance trust. In each member

country, implementation is overseen by a Multi-Stakeholder Group (MSG) comprising government representatives, extractive company officials and civil society organisations working together. EITI is currently being implemented in 57 countries in Africa, Asia, Europe and the Americas.

The EITI standard sets out the requirements which countries need to meet to be recognised, first, as EITI candidates and, subsequently, as being compliant. The standard is overseen by the EITI Board which comprises 20 members representing implementing countries, supporting countries, civil society organisations and industry and institutional investors.

WHAT THE NEW REPORT SAYS

Total revenues received from the extractive sector amounted to sh241.4b in the financial year (FY) 2020-21. This accounted for 0.6% of the total domestic revenues in the FY2020-21. Revenues collected by the Uganda Revenue Authority (URA) accounted for 95.72% of the total revenue streams generated by the sector.

The macro-economic data provided by the Uganda Bureau of Statistics (UBOS) indicates that the mining and quarrying sector accounted for sh2.6 trillion in the FY2020-21, which represents 1.8% of the national GDP on current basic prices, including 1.35% from formal sector activity and 0.4% related to informal sector activities. The contribution of the mining and quarrying sector to GDP has increased compared to the prior year's contribution (1.6%).

EXTRACTIVE SECTOR CONTRIBUTION TO EMPLOYMENT

In accordance with the UBOS Annual Labour Force Survey (ALFS) 2021, there were 20,484,742 persons employed formally in Uganda, of whom 1,515 were employed in the oil, gas and mining sectors, representing 0.01% of total employment in the FY 2020-21.

According to DGSM, the value of exports from the extractive sector amounted to sh2.035b, accounting for 0.01% of the country's total exports in the FY 2020-21. The mineral resources in Uganda can be divided into metallic and non-metallic minerals (industrial or construction materials).



Tullow staff at one of the discovery oil points in Ngassa II in Kalso, Bullisa district

LEADERS COMMENT

The state minister for minerals at the energy ministry, Peter Lokeris explained that in the extractive industries, there is the process of extraction and sustainably processing natural resources. The minister said minerals are needed to create products and humans need mineral substances.

"The EITI initiative is about seeing what we are doing and making declarations. Oil, gas and minerals create employment and generate revenues. There are many laws in place governing the extractives sector," Lokeris said.

"To complement the legal and institutional framework that is in place, the Government joined EITI. The EITI is a global initiative that promotes transparency, accountability and other best practices to strengthen the management of extractive resources," he said.

"The EITI Standard involves disclosures along the extractive industries value chain from contracts and licence allocation to production, revenue collection and allocation, as well as social and economic spending for public benefit," Lokeris added.

The minister further said the EITI report will increasingly generate useful information on the developments in the extractive sector. These include the challenges and shortcomings related to governance and management of these resources along the extractive industries value chain.

Moses Kaggwa, the chairperson of the Multi-Stakeholder Group Uganda Extractive Index Transparency Initiative (EITI), said once the information is regularly disclosed, it promotes public and investor confidence in the government's management of the sector.

Kaggwa said that furthermore, the public is able to hold duty bearers to account on how expenditure is apportioned. He also said the public will outline what they consider to be their development priorities from extractive revenue expenditure.

Artisanal and small-scale mining (ASM) is described as a largely informal economic sector that includes workers who use rudimentary tools to extract minerals from the earth. The Mining and Minerals Act 2022 defines artisanal mining operations as those that do not exceed the 10 metres depth and undertaken in accordance with the Act and the artisanal mining licence.

ASM is an important socio-economic sector for the rural poor in many developing nations, many of whom have few other options for supporting their families. ASM has become a major contributor in Uganda's mining industry and plays an important role in local development, as well as job creation (estimated at over 1 million direct and indirect jobs in 2018, benefiting approximately 10% of the country's population).

ASM represents the mainly informal sector and

is not accounted for in the country's GDP calculation. Statistics suggest formal ASM operations have contributed sh713.5m to national revenues from 2014 to 2021. Over 80% of Uganda's mining workforce are ASM. They are responsible for the majority production of gemstones and more than 90% of metallic minerals, industrial minerals such as gypsum, limestone, pozzolanic material and other building minerals such as clay, sand and aggregate.

With the exception of building minerals which are extracted in most districts, mining of other commodities is largely restricted to the southwest, central and eastern regions of the country. Artisanal mining includes activities such as development of underground workings, small-scale processing plants, quarrying, as well as alluvial mining in rivers banks and beds.

FISCAL REGIME REFORMS

The main changes in the mining sector fiscal regime, according to the Mining and Minerals Act, 2022, are as follows: Introducing the state equity participation in the large and medium scale mining licences granted after the commencement of this Act.

The Act revised the mining royalties sharing proportions by giving the Central Government 70%, local government 15%, sub-county/town council 10% and owners, lawful or bona fide occupants of the land 5%. In the Mining Act 2003, the Central Government took 80%, local governments 10%, sub-county/town councils 7% and owners or lawful occupiers of land with minerals 3%.

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operations or activities under an exploration licence or a large-scale mining licence in respect of highly capitalised and complex projects.

The Act requires that a model of mining agreement shall be developed by the energy minister and approved by the Parliament. The Act introduces state equity participation in the large and medium scale mining licences granted after the commencement of this Act.

The law gives the energy powers to grant and revoke mineral rights, licences, permits and other authorisations. These powers previously belonged to the head of the DGSM. The DGSM is responsible for the regulation and management of minerals and mining activities through the department of geological surveys, the department of mines and the department of geothermal resources.

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Uganda's fiscal system for the mining sector is based on a combination of the taxation structure established by legislation and the contractual framework under which mining companies operate with the Government. The energy ministry is currently developing several regulations under the new Mining and Minerals Act 2022. The taxation structure is still governed by the Income Tax Act, Cap. 340 of the Laws of Uganda, and the Value-Added Tax Act, Cap. 349 of the Laws of Uganda.

The mining licence/permit holders are required to make payments specific to the mining activities as stipulated in the Mining Act 2022 and Mining (Licensing) Regulations, 2019, by agreements signed between miners and the Government and by the terms provided by the licence granted.

In 2022, government finalised the Tax Expenditure Governance Framework to limit leakages and