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**Uganda Summary 23 January 2015**

**President Yoweri Museveni (1986 – present) appoints a new generation of National Resistance Movement (NRM) members to senior party positions. MP Justine Kasule Lumumba is the new NRM secretary general. Yields on Bank of Uganda bonds increase as inflation risk deters investors. Declining international oil prices result in cheaper diesel and petrol prices but Umeme Ltd increases electricity prices.**

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**New NRM generation comes of age**

President **Yoweri Museveni** (1986 – present) used his position as chairman of the ruling **National Resistance Movement (NRM)** party to create a platform for his expected 2016 election campaign. Museveni appointed a new party secretariat whose members share a similar profile: they are younger than the NRM's 'historicals', and originate from outside western Uganda, the heartland of the party's traditional leadership. The new officials are also linked to either the **Kyankwanzi** resolution, under which Museveni would be the NRM's uncontested 2016 election candidate, or to constitutional reform.

The biggest loser was former prime minister **Amama Mbabazi** who was ousted as NRM secretary general on 15 December.<sup>1</sup> Delegates at the NRM's December conference amended the party constitution, allowing Museveni to appoint the secretary general himself. Mbabazi's replacement is **Justine Kasule Lumumba** who has served as NRM chief whip since 2013. Lumumba has been central to Museveni's attempts to implement the Kyankwanzi resolution and to oust Mbabazi.<sup>2</sup> Under her watch, party discipline has improved in the Ugandan parliament although an observer puts this down to "NRM members being too concerned about resolving their own personal debts to be thorns in Museveni's side".<sup>3</sup>

Lumumba herself has not always toed the party line. She abstained in the 2005 vote that lifted presidential term limits.<sup>4</sup> This recalcitrance allegedly held her back from previous promotions within the NRM although it did not prevent her from sitting on the central executive committee.

Museveni will also hope that the appointment allows him to shore up support in **Eastern Uganda** where Lumumba has been MP for **Bugiri** since 2001. However, Lumumba will have to give up her parliamentary seat. The new NRM constitution prohibits senior party officials from holding elected office, although the NRM has yet to remove any of the new office holders from parliament. If Lumumba does resign her seat, Museveni may put forward an NRM heavyweight to counter resistance to the Kyankwanzi resolution in the region (see *ARC Briefing Uganda October 2014*).

Museveni may hope that his appointment of Lumumba – born in 1972 – will reassure the Young Turks within the NRM that he can accommodate their political aspirations.<sup>5</sup> There was strong 'historical' opposition to Lumumba's appointment. Central executive committee members preferred defence minister **Crispus Kiyonga**.<sup>6</sup>

Lumumba has said that the NRM's priorities will be unemployment and service delivery, both of which are important to Uganda's young population. The NRM has consistently failed to reach out to Uganda's educated youth, who are more concerned about their economic prospects than NRM scaremongering about a return to the **Bush War** (1981 – 1986).

The NRM national executive committee universally approved the new party secretariat on 8 January. The new NRM office holders, who were also on Museveni's shortlist for the secretary general position, include:<sup>7</sup>

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<sup>1</sup> Daily Monitor, 15 Dec 2014.

<sup>2</sup> Source, journalist, Kampala

<sup>3</sup> Source, journalist, Kampala

<sup>4</sup> The Observer, 24 Dec 2014.

<sup>5</sup> Source, journalist, Kampala

<sup>6</sup> The Observer, 24 Dec 2014.

- **Richard Todwong**, deputy secretary general. Todwong is the political mobilisation minister and **Nwoya County** MP. Museveni appointed him to the **Ssempebwa Commission** that started the review of the **1995 Constitution** that eventually led to the removal of presidential term limits. Todwong has served as minister without portfolio since 2013. In June 2014, he allegedly instructed intelligence officers to tail Mbabazi.<sup>8</sup> He was born in 1973.
- **Rosemary Namayanja**, treasurer. Namayanja is the information minister. In this role, she was part of a taskforce that promulgated the Kyankwanzi resolution. She was born in 1975.
- **Kenneth Omona**, deputy treasurer. Omona is the **Kabemba** MP and chair of the parliamentary health committee. Omona entered parliament in 2010 and was an early vocal supporter of Museveni serving a fifth term.<sup>9</sup> He was born in 1974.
- **Tanga Odoi**, electoral commission chairman. Odoi is an academic, chair of the **Makerere University Academic Staff Association**.

The appointments might suggest that Museveni is planning to accelerate plans to amend the constitution. In his New Year speech, Museveni referred to minor constitutional changes including reform of the **Electoral Commission (EC)**. This is a watered down version of opposition demands and may pave the way for more radical reform. Notably, it may involve the removal of the bar on candidates older than 75 standing for president, which would allow the now 70-year-old Museveni to stand again in 2021. A diplomatic source raised the prospect of Museveni amending the constitution to remain in power as he did in 2005, describing him as a “*creature of habit*”.<sup>10</sup>

Mbabazi’s political future is uncertain. On the same day the NRM’s national executive committee approved the new party secretariat, the constitutional court rejected Mbabazi’s petition to serve out the rest of his term of office that ends in July. However, Museveni did offer him a seat on the central executive committee. Mbabazi’s legal challenge and continued insistence that he has a role in the NRM may dissuade opposition parties from offering him a political platform from which to challenge Museveni.

A number of incidents in January highlight the challenge facing the opposition. On 2 January, General **David Sejusa** was placed under military house arrest after refusing to meet with Museveni. He backed down and met Museveni the next day. An **Ipsos** opinion poll published on 12 January signaled that Museveni would win 57% of votes if an election were held immediately compared to **Forum for Democratic Change (FDC)** founder **Kizza Besigye’s** 8%.<sup>11</sup> The FDC is expected to convene in **Kampala** in February to elect office holders and election candidates.

## Yield increases show investor wariness

Risk of fiscal discipline collapsing before the 2016 election is already having a negative impact on investor confidence. Investors are demanding higher yields on Ugandan debt. The yield on a one-year note on 7 January was 14.2% compared to 13.9% in November and 11.9% in June 2014.<sup>12</sup> On 1 January, the **Bank of Uganda (BoU)** cancelled a scheduled \$65m bond sale of two and five-year notes “*due to unacceptably high yields submitted by the investing public*”.<sup>13</sup> Inflation is currently relatively steady. According to **Uganda Bureau of Statistics** figures, inflation decreased from 2.1% in November to 1.8% in December.<sup>14</sup>

Currency volatility is a larger short-term risk than inflation. The Ugandan shilling depreciated approximately 10% between December 2013 and December 2014 and an additional 4.1% in 2015.<sup>15</sup> The BoU has cited various explanations for this, notably an overvalued exchange rate in 2013, strong demand for foreign exchange, and weakening investor appetite for emerging markets amongst increasing appreciation of the **United States (US)** dollar. The BoU started sales of US dollars in January but these have done little to stem the decline as demand

7 The Observer, 24 Dec 2014.

8 The Observer, 25 Jun 2014.

9 The Observer, 24 Dec 2014.

<sup>10</sup> Source, western diplomatic source

11 Daily Monitor, 12 Jan 2015.

12 Reuters, 13 Jan 2015.

13 BoU statement, 2 Jan 2015.

14 Daily Monitor, 31 Dec 2014.

15 The Independent, 26 Jan 2015.

outstrips supply.<sup>16</sup> Business leaders forecast that investment in oil and gas infrastructure, strong demand from commercial banks, as well as the energy sector's demand for US dollars will contribute to the shilling remaining weak through 2015.<sup>17</sup> The current exchange rate is 2,849 to the dollar, close to the record low of 2,910/ 2,290 in September 2011 that followed the heavy pre-election spending.

Nevertheless, the inflationary pressure caused by borrowing is unnerving investors. The government has already increased borrowing limits to meet existing financing gaps linked to high infrastructure spending. The 2014 budget limits domestic borrowing to 2.53 trillion Ugandan shillings (US\$) (\$977.8m) compared to US\$1.747 trillion (\$677.8m) in 2013 – 2014 (see *ARC Uganda June 2014 Briefing*).

The **International Monetary Fund** has warned that the government needs to avoid the accumulation of domestic arrears and increased domestic borrowing through BoU-issued treasury bills and bonds to reduce the risk of a domestic debt crisis. **Fitch** has forecast that debt has increased from 21% of GDP to 35% within two years.<sup>18</sup> On 20 January, finance minister **Maria Kiwanuka** reiterated the government's commitment to budgetary discipline, noting that the government had borrowed domestically less than half the US\$1.4 trillion (\$491m) it had planned for in the 2014 – 2015 fiscal year.<sup>19</sup> In the last financial year, the government planned to borrow US\$1.1 trillion (\$386m) but ended up borrowing US\$1.7 trillion (\$595m).

Investors fear a repeat of the 2011 election when fiscal discipline collapsed. In December 2010 – halfway through the financial year – 85% of the national budget had been spent with most diverted to campaigning and shoring up support amongst NRM members of parliament. In January 2011, the government, struggling to meet recurrent public sector spending requirements on salaries, passed a large supplementary budget to cover both regular expenses and more partisan election spending. By March 2011, the government had to print money and raid Uganda's official reserves. The overspending, combined with a slowdown in donor funding triggered by concerns over corruption and the global recession, worsened Uganda's external position even further and the currency slid dramatically. BoU governor **Emmanuel Tumusiime-Mutebile** declared inflation at 30% as “*out of control*”, raised the central bank lending rate, and issued extra treasury bills.<sup>20</sup> Tumusiime-Mutebile has publicly promised that the BoU will not print currency in the run up to the 2016 elections, but he may find himself under increasing political pressure to do so.

## Consumers not enjoying full effect of cheaper oil

Consumers in Uganda – a fuel importer – should be enjoying the benefit of declining oil prices. However, some brokers are refusing to pass on the savings. Diesel and petrol prices at petrol stations have declined approximately 7% and 4% respectively since June 2014.<sup>21</sup> The **Uganda Revenue Authority** reported in November that the volume of fuel imports increased 9% in the first quarter as importers took advantage of low oil prices. The international price is \$49 per barrel at time of writing,<sup>22</sup> a decline of approximately 60% since June 2014. However, unlike the majority of its **East African** neighbours, Uganda does not have a regulatory body with the authority to intervene in the petroleum market.

Adding to consumers' woes, electricity prices have increased despite cheaper oil. Utility company **Umeme** successfully applied to the **Energy Regulatory Authority (ERA)** to increase electricity prices from US\$518 (\$0.182) per unit to US\$520.7 (\$0.183).<sup>23</sup> While Umeme factors the price of oil into its price setting, it claims that the weaker shilling offsets the benefits of cheaper oil (see above).

## Implications

The NRM's failure to accommodate the aspirations of Uganda's young population and its own younger members is a long-term threat to Uganda's stability. The appointment of senior NRM officials from outside the “historicals” suggests that Museveni is increasingly aware of this risk. Equally the appointments suggest that Museveni is preparing to stand in 2016 and will possibly try to amend the constitution to remain in power

<sup>16</sup> Bloomberg, 14 Jan 2015.

<sup>17</sup> Source, business leader, East Africa

<sup>18</sup> Reuters, 13 Jan 2015.

<sup>19</sup> The Observer, 20 Jan 2015.

<sup>20</sup> www.bis.org

<sup>21</sup> The Observer, 7 Jan 2015.

<sup>22</sup> FT, 21 Jan 2015

<sup>23</sup> Daily Monitor, 13 Jan 2015.

beyond 2021. The longer Uganda remains in effect a single party state, the more tumultuous the eventual transition of power will be. Challenges to Museveni continue to be more likely to emerge from within the NRM than from the weak and fractured opposition.

Inflation is likely to increase in line with increased NRM spending in the run up to the election. Tension is likely to increase between Tumusiime-Mutebile and the government over his tough line on fiscal discipline, but Museveni will be aware that forcing him out of office before the end of his term in January 2016 would have a negative impact on investor confidence.

The price of fuel to consumers is unlikely to decrease further, with downstream traders likely to cite the high cost of dollars required for imports and transportation from **Mombasa Port, Kenya**. In the longer term, the coming online of the **Hoima** refinery and Uganda's capacity to refine domestically produced crude oil will reduce import costs and therefore act as a check on inflation.