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The electoral commission approves eight candidates for the 18 February 2016 presidential election including President Yoweri Museveni (1986- present) and opposition leaders Amama Mbabazi and Kizza Besigye. Allegations of electioneering and violence mar ruling National Resistance Movement (NRM) primaries. Uganda improves its ranking in the World Bank's Doing Business index, rising from 135 in its 2015 report to 122. The Uganda Electricity Regulatory Authority (UERA) increases consumer electricity prices 17% in the fourth quarter 2015.

Electoral commission approves presidential candidates and sets election date

The electoral commission has approved eight candidates for the presidential election, and has set the election date for 18 February 2016.¹ President **Yoweri Museveni** (1986- present) enters the election period as firm favourite to win. The electoral commission approved Museveni and opposition leaders **Amama Mbabazi** and **Kizza Besigye** as three of the eight presidential candidates.² The presence of two prominent opposition figureheads on the ballot paper is likely to give Museveni an advantage, while state resources and established networks of patronage should ensure his victory (see *ARC Briefing Uganda October 2015*).

Despite having the incumbent's advantage, Museveni's ruling **National Resistance Movement (NRM)** has entered the election period in chaotic fashion. The NRM has started its primaries to select parliamentary, mayoral and district chairman positions ahead of the 2016 general elections.³ The primaries started in chaotic fashion amid allegations of electioneering and intimidation, raising concerns about the conduct of the presidential election.

*"I think the NRM primaries spell doom for the 2016 general elections. The level of vote rigging and ballot stuffing and, above all, the violence of the candidates is a worry. The same acts of vote rigging, ballot stuffing and violence will be replayed in the coming election in a more dangerous way. The worry is that the party officials meant to prevent this sort of crime are at the same time the same people trying to catch the eye of Museveni."*⁴

Security forces seized fake election materials in both **Ntungamo** and **Lwengo Districts** the day before voting was originally scheduled to begin.⁵ The primaries were scheduled to begin on 26 October.⁶ The NRM electoral commission on 25 October postponed the primaries for 24 hours without giving a reason. However, the postponement did not ensure the effective management of primaries. Delays in the delivery of voting materials to polling centres and allegations of electoral malpractices led to the cancellation of voting in the towns of **Masaka**, **Hoima**, **Namutumba**, **Lwengo** and **Wakiso**.⁷ In Lwengo, security forces arrested the local police chief allegedly in possession of

¹ Daily Monitor, 5 Nov 2015.

² Daily Monitor, 3 Oct 2015.

³ Daily Monitor, 27 Oct 2015.

⁴ Source, civil servant, Kampala

⁵ NTV, 25 Oct 2015.

⁶ Daily Monitor, 27 Oct 2015.

⁷ Daily Monitor, 27 Oct 2015.

completed ballot papers.⁸ There were clashes between rival candidates, notably in **Alebtong District**.⁹ The NRM deployed the **Ugandan People's Defence Forces (UPDF)** to ensure security at some polling centres, including in **Kampala**.¹⁰ The NRM electoral commission's lack of preparedness was not a surprise. It lacks both financial and human resources, explaining why the NRM often loses by-elections when the opposition is able to channel all its resources into one constituency.¹¹ However the opposition lacks the structure to pose a nationwide electoral challenge to the NRM. The chaotic primaries may give the opposition a boost if they lead to defections. Several senior NRM officials, including Museveni's son-in-law **Odrek Rwabogo**, failed to secure nominations, and may either back Mbabazi or stand as independents.¹²

*"I think the NRM primaries are going to produce the biggest political party in Uganda called the independents because all the disgruntled losers in the party primaries are threatening to come as independents. So the NRM may be the wounded party in Uganda after this sham and poorly organised party primaries, and it shows that the general elections next year will be full of rigging."*¹³

Securing the NRM nomination is often sufficient to win office, making the primaries a trigger for fraud and violence.¹⁴ Holding office can prove fairly lucrative in Uganda due to the overlapping of political and business interests.¹⁵

*"Politics is the only profit making industry in Uganda. This has made it a 'do or die thing' for the politicians who see themselves captains of the industry. The NRM as a party has limited itself to the preservation of Museveni and seems unconcerned with the party's internal democracy. There might be a future problem of sustaining the NRM."*¹⁶

An NRM official confirmed that being in effect a one-party state has encouraged party members to prioritise gaining office rather than wider concerns about party stability.

*"The NRM has been weakened by the virtual fusion of its structures with the state. A fresh start will only be possible when Museveni is out of power."*¹⁷

Campaigning for the election officially started on 9 November and will end on 16 February.¹⁸ The first few days suggest that the election campaign is a contest about personality not policy. Museveni has highlighted his track record in ensuring sustained economic growth and political stability.¹⁹ He unveiled a manifesto of vague pledges on 6 November: the NRM will prioritise security, prosperity, patriotism, access to markets, employment and wealth creation.²⁰ Museveni also promised to crack down on public sector corruption.²¹ With regard to infrastructure development, Museveni said he would prioritise railway development, the tarmacking of all major roads, and increasing electricity generation.²² To combat youth unemployment, Museveni promises to increase investment in agriculture, including an innovation fund in each sub-county. Rival candidate Mbabazi has positioned himself as someone who can bridge the divide between the NRM 'historicals' (the older generation of

⁸ Daily Monitor, 27 Oct 2015.

⁹ Daily Monitor, 27 Oct 2015.

¹⁰ Daily Monitor, 27 Oct 2015.

¹¹ New Vision, 1 Aug 2012.

¹² Source, journalist, Kampala

¹³ Source, civil servant, Kampala

¹⁴ Source, civil servant, Kampala

¹⁵ Source, former western diplomat, East Africa

¹⁶ Source, newspaper editor, Kampala

¹⁷ Source, senior NRM official, Kampala

¹⁸ Daily Monitor, 5 Nov 2015.

¹⁹ Daily Monitor, 3 Oct 2015.

²⁰ Daily Monitor, 6 Nov 2015.

²¹ Daily Monitor, 6 Nov 2015.

²² Daily Monitor, 6 Nov 2015.

the party leadership who get their legitimacy from having taken part in the guerrilla war in the 1980s) and Uganda's youthful population.²³

Uganda improves in Doing Business index

Uganda improved markedly its ranking in the **World Bank's *Doing Business*** index, rising from 135 in its 2015 report to 122 in *Doing Business 2016*.²⁴ The *Doing Business* index provides objective measures of business regulations and their enforcement across 189 countries, in an effort to identify legal and regulatory barriers facing investors.²⁵ The increase makes Uganda the second most improved regulatory environment in **East Africa** after **Kenya**, which increased 21 places.²⁶ The rankings of Kenya and Uganda are both misleading, and do not accurately reflect changes within the past year. In both Kenya and Uganda, a significant rise in obtaining credit distorts the ranking and hides the considerably more marginal gains in the other categories.²⁷ It also overshadows categories in which Uganda has regressed, notably in paying taxes and trading across borders.²⁸

Uganda rose from 128 to 42 in obtaining credit. The improvement was the result of an improved score in the "depth of credit information" index. In 2015, Uganda scored 0 out of 8 possible points, but in 2016, it scored 7 out of 8, the same score as **South Africa** and Kenya.²⁹ Depth of credit information relates to the scope and accessibility of credit information distributed by credit bureaus and credit registries.³⁰ The World Bank noted that credit record bureaus (CRBs) in Uganda had expanded their borrower coverage thereby improving access to credit information. This is largely the result of the **Bank of Uganda (BoU)** in April extending coverage to all credit institutions, not just commercial banks.³¹

The BoU has also liberalised the credit sector. In 2008, it awarded South Africa-based financial services company **Compuscan CRB Ltd** a four-year exclusive contract to establish a CRB and biometric financial card system.³² Since 2009, the BoU has required all banks to check both a credit inquiry and a financial card before issuing credits to customers.³³

Compuscan oversaw an improvement in credit data, but this did not result in an increase in lending rates.³⁴ The use of credit, in fact, decreased between 2009 and 2013 with the proportion of adults accessing credit decreasing from 45% in 2009 to 35% in 2013.³⁵ While the value of private sector credit increased during this period, much of this was attributable to the growth of the economy and the money supply. After Compuscan's period of exclusivity ended, it remained the sole CRB company, partly as the BoU refused to unbundle the CRB and financial card system projects.³⁶ Compuscan oversaw a rapid increase in the number of credit enquiries following the end of its exclusive contract. The total number of enquiries rose from 1.7 million at the end of December 2013 to 2.3 million at the end of December 2014.³⁷ The accuracy of the credit ratings all improved during this period, with industry acceptance rates of 95%.³⁸ When the BoU awarded **Techno Brain Ltd** the contract to finalise the financial card system, the central bank liberalised the CRB sector. Kenya-based **Metropol Corp**

²³ Daily Monitor, 3 Oct 2015.

²⁴ www.doingbusiness.org

²⁵ www.doingbusiness.org

²⁶ www.doingbusiness.org

²⁷ www.doingbusiness.org

²⁸ www.doingbusiness.org

²⁹ www.doingbusiness.org

³⁰ www.doingbusiness.org

³¹ BOU, 4 Jan 2015.

³² Daily Monitor, 20 Mar 2015.

³³ BOU Annual Supervision Report, 2014

³⁴ BOU Annual Supervision Report, 2014

³⁵ BOU Annual Supervision Report, 2014

³⁶ Daily Monitor, 20 Mar 2015.

³⁷ BOU Annual Supervision Report, 2014

³⁸ BOU Annual Supervision Report, 2014

Ltd applied for a licence, which the BoU only approved in 2014. Metropol entered the market in March as **Metropol Uganda Ltd**. Improved credit references have not resulted in cheaper lending due to high interest rates. Commercial prime lending rates stood at 24% in September on the back of the BoU increasing its benchmark central rate 150 basis points to 16% in August.³⁹ The increase meant that the BoU has increased its benchmark central rate by 500 basis points since April.⁴⁰

Uganda notably slipped four places from 101 to 105 in the “paying taxes” category, though this is higher than its overall ranking.⁴¹ The World Bank noted that on average a Kampala-based company makes 31 tax payments a year and spends 209 hours filing, preparing and paying taxes, with total taxes amounting to 36.5% of profit. This is not dissimilar to Kenya: 30 payments a year, 202 hours, and 37.1% of profit. The Ugandan tax system is less burdensome than its neighbour’s; however, revenue collection remains low in part due to a highly politicised **Uganda Revenue Authority (URA)**.⁴²

“Years of appointment by political patronage have weakened all agencies around the government and the URA is no exception. Improving revenue collection will need a reformed URA which means it will have a very high cost of implementation and will take time and political will.”⁴³

The Uganda *Doing Business* ranking excludes factors related to political risk and macroeconomic stability, both of which have increased investor concerns ahead of the 2016 elections (see above).

Electricity prices increase 17%

The **Uganda Electricity Regulatory Authority (UERA)** said on 21 October that it will increase consumer electricity prices 17% for the fourth quarter 2015.⁴⁴ Higher electricity prices are likely to increase inflation. The average consumer tariff will reach US\$507 (\$0.141) per kilowatt-hour.⁴⁵ This compares to US\$432.20 (\$0.123) in the last quarter.⁴⁶ The increased tariffs result from the continuing currency decline. In January 2014, the UERA approved its **Quarterly Tariff Review Methodology** by which it pegs electricity prices to the exchange rate, inflation and fuel prices. The UERA noted that the shilling depreciated 31.6% against the dollar between November 2014 and August 2015; inflation increased 4.7% during the same period; and the international price for crude oil stood at \$45.70 per barrel compared to \$80 per barrel when the UERA determined the base tariffs for 2015.

Electricity prices are already increasing pressure on inflation. The **Uganda Bureau of Statistics (UBOS)** on 30 October published data revealing that annual inflation reached 8.8% in October, the highest since August 2012.⁴⁷ According to UBOS, annual inflation reached 7.2% in September.⁴⁸ UBOS cited food crop and energy and fuel inflation for the increase between September and October.⁴⁹ Core inflation excluding food and fuel decreased from 6.7% in September to 6.3% in October.⁵⁰

Implications

Museveni’s record of ensuring political stability is likely to win him the presidential election. Despite the chaotic primaries, the NRM’s financial and organisational capacity means it is the only party able to manage an effective nationwide election campaign. The primaries indicate the risk of election

³⁹ BoU statement, 10 Aug 2015.

⁴⁰ BoU statement, 10 Aug 2015.

⁴¹ www.doingbusiness.org

⁴² Source, former western diplomat, East Africa

⁴³ Source, economist, Kampala

⁴⁴ Reuters, 21 Oct 2015.

⁴⁵ Reuters, 21 Oct 2015.

⁴⁶ Reuters, 21 Oct 2015.

⁴⁷ East African, 2 Oct 2015.

⁴⁸ East African, 2 Oct 2015.

⁴⁹ East African, 2 Oct 2015.

⁵⁰ East African, 2 Oct 2015.

related violence, but security forces' intervention will ensure that sporadic localised incidents do not escalate. The primaries were embarrassing for the NRM and defeated candidates may defect to the opposition, but not in sufficient numbers to threaten Museveni's expected election victory.

Uganda's ranking in the *Doing Business* index highlights the inadequacy of using quantitative rankings alone to evaluate an investment environment. One radical increase has distorted the wider perception of Uganda. It is also a category that – while important for small and medium enterprises – is not overly significant for international investors. Tax administration is likely to become aggressive in Uganda as the government has predicated its financial planning on overly ambitious estimates of commercial oil production. The government may view international companies as easy targets.

Uganda's electricity sector remains an economic bottleneck. The high level of theft, loss and technical problems across the electricity network undermines the progress in developing Uganda's infrastructure. The government plans to develop several hydroelectric power plants during the next decade centred on the northwestern **Lake Albert** basin.

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