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President Yoweri Museveni (1986-present) dismisses Inspector General of Police Kale Kayihura and the security minister, Henry Tumukunde. Parliament asks the auditor general, John Muwanga, to investigate the management of the Bank of Uganda (BoU) (central bank) following a reshuffle of directors. Uganda Securities Exchange (USE) and Nairobi Securities Exchange (NSE)-listed electricity utility Umeme Ltd records a 77% year-on-year decrease in pretax profit amid uncertainty about future of its concession currently due to expire in 2025.

Museveni dismisses senior security officials

President **Yoweri Museveni** (1986-present) dismissed Inspector General of Police **Kale Kayihura** and **Henry Tumukunde**, the security minister responsible for the **Internal Security Organisation (ISO)** and **External Security Organisation (ESO)**, on 4 March.¹ The dismissals come amid increased popular and investor concern about the impact of security agency turf wars on rising insecurity and crime. Kayihura and Tumukunde were long-standing rivals for influence under Museveni. Both Kayihura and Tumukunde were veterans of the Bush War in the 1980s, alongside Museveni. Tumukunde, however, fell out with Museveni in 2003 when he opposed the removal of presidential term limits.² Museveni forced Tumukunde to resign as a member of parliament (MP) representing the **Uganda People's Defence Force (UPDF)** in 2005 and Tumukunde was subsequently arrested by forces under the command of Kayihura for spreading harmful propaganda.³ Tumukunde, however, had returned to favour by June 2016, in part because he is married to **Stella Tumukunde**, a cousin of first lady **Janet Museveni**.⁴ He was appointed security minister in part to offset the influence of his rival Kayihura, whose political ambitions unnerved Museveni.⁵ Tumukunde, however, has lost favour with Museveni in recent months due to his repeated demands for increased financing for the ISO.⁶ Museveni was reportedly concerned that Tumukunde was using ISO resources to undermine Kayihura.⁷

"I personally think that Tumukunde would have remained security minister but Museveni had to deal with the open fight between Kayihura and Tumukunde."⁸

Kayihura was appointed inspector general of police in 2005 – partially in recognition of his arrest of Tumukunde⁹ – and came to prominence in 2006 due to his heavy-handed policing of opposition protests following the February 2006 general election.¹⁰ Kayihura was allegedly involved in electoral fraud for Museveni ahead of the February 2016 general election.¹¹ However, Museveni has become increasingly concerned about Kayihura's influence and how the **Uganda Police Force (UPF)** has

¹ New Vision, 4 Mar 2018.

² Source, journalist, Kampala.

³ The Independent, 19 Mar 2018.

⁴ The Independent, 19 Mar 2018.

⁵ The Independent, 19 Mar 2018.

⁶ The Independent, 19 Mar 2018.

⁷ The Independent, 19 Mar 2018.

⁸ Source, security analyst, Kampala.

⁹ The Independent, 19 Mar 2018.

¹⁰ Source, journalist, Kampala.

¹¹ Source, journalist, Kampala.

increased in power under his watch.¹² Kayihura has also fallen out of favour due to his links to the **Boda Boda 2010** criminal gang and militia (see *ARC Briefing Uganda February 2018*) and to **Chieftaincy of Military Intelligence** (an arm of the UPDF) allegations that senior UPF officers have conducted espionage for **Rwandan** President **Paul Kagame** (2000-present) (see *ARC Briefing Uganda November 2017*).

“By sacking both the Inspector General of Police and the security minister, the president was trying to correct the mistake he created when he started appointing army men to head police, but above all, what he was trying to do is to get rid of the parallel system that Kayihura had created. Kayihura’s parallel system tended to favour Rwanda in terms of intelligence gathering and targeting of Rwandan dissidents here.”¹³

Museveni was also concerned of possible embarrassment amid increased popular criticism of the UPF for being too corrupt or incompetent to solve high-profile incidents of crime. Kayihura failed to solve the killing of UPF assistant inspector general **Andrew Felix Kaweesi** in March 2017.¹⁴ At least 23 women were murdered in **Kampala** between May and October 2017, encouraging speculation about ritual killings or a serial killer.¹⁵ At least six foreign nationals – including a **Finnish** arms dealer¹⁶ – died in Uganda in separate incidents in February, triggering unease.¹⁷ There has also been an increase in kidnap-for-ransom incidents in Kampala. In a high-profile kidnapping, the body of **Susan Magara** was found on 28 February, 21 days after her kidnap by an unknown gang who demanded a \$1m ransom.¹⁸

*“It was high time the president made changes in the police force [to improve its record]. Changes at the UPF begun immediately after Kayihura was dropped. I think the President may have noticed mistakes in Police command. Just look at the number of officers who have just been redeployed from the Office of Inspector General of Police. Some transfers were aimed at efficiency. Look at the transfer of **Abbas Byakagaba** back to counter terrorism from oil and gas directorate. Abbas is one of the most trained officers in counter terrorism, but he had been deployed to oil and gas directorate by Kayihura. You also see some professional police officers and others now taking strategic positions.”¹⁹*

Museveni is unlikely to be concerned about the ambitions of the successors to Kayihura and Tumukunde. The new inspector general of police is **Martin Okoth Ochola**. Ochola is Kayihura’s former deputy, a career UPF officer since 1988, who is close to retirement.²⁰ Some in the security sector have welcomed the appointment of Ochola as an experienced insider.

“The appointment of Ochola will lead to improvements in policing because the new inspector general is a career police officer who fits in at police headquarters. A man with over 30 years’ experience in police matter, he is well versed with police systems. The police are a system: issuing orders and reporting commands. That chain of command was what was missing under Kayihura. The new Inspector General of Police knows how Kayihura works and he will dismantle his parallel systems.”²¹

However, other UPF sources were more cautious, pointing to structural issues around the security sector.

¹² Source, journalist, Kampala.

¹³ Source, senior security official, Kampala.

¹⁴ New Vision, 17 Mar 2017.

¹⁵ Monitor, 20 Sept 2017.

¹⁶ www.metropolitan.fi.

¹⁷ The Independent, 26 Feb 2018.

¹⁸ The Observer, 28 Feb 2018.

¹⁹ Source, security analyst, Kampala.

²⁰ Source, journalist, Kampala.

²¹ Source, senior security official, Kampala.

*“I think it will be more or less the story with or without Kayihura. Nobody can change the police if we still have the current regime. Police and other armed forces are mainly used to ensure longevity of the regime and this comes at high cost in terms of human rights and political freedoms. The police will always serve the interests of the NRM regime first as we saw in the recently concluded **Jinja East** by-election and mark you this election came in the aftermath of Kayihura’s sacking. The investigators are wanting in skill since they are not properly trained. The priorities of police seem to be tilted to buying teargas which they use to disperse opposition supporters and so investigating crime isn’t their concern. So Kayihura wasn’t the problem, he was simply part of the wider problem and that’s having a regime which has lasted for all this time without any legitimacy to talk about. Expect the same things but from different actors.”²²*

The new security minister is UPDF MP **Elly Tumwine** who was a **National Resistance Army** commander under Museveni in the 1980s.²³ He has a reputation as a Museveni loyalist and has not held public office since 1996.²⁴

Museveni carefully uses divide and conquer amongst senior officials to mitigate the political threat of possible challengers. This will increase ahead of the 2021 election and when Museveni eventually begins to usher in his own successor. Changes at senior level will not disrupt policy development as Museveni will continue to dominate decision making.

Parliament to investigate Bank of Uganda

Parliamentary committee on commissions, statutory authorities and state enterprises chairman **Abdu Katuntu** tasked the auditor general, **John Muwanga**, to investigate the management of the **Bank of Uganda (BoU)** (central bank) on 21 March.²⁵ The investigation may undermine the position of BoU governor **Emmanuel Mutebile**. Katuntu gave Muwanga 30 days in which to report back as part of a broader investigation into the management of the banking sector. Muwanga’s tasking relates to sweeping managerial changes that Mutebile implemented on 7 February.²⁶ The changes affected eight executive directors, 13 directors and 24 deputy directors.²⁷ Most notably, the changes involved the replacement of the then director of commercial bank supervision, **Justine Bagyenda**, by then industry affairs director **Tumubweine Twinemanzi**.²⁸ Bagyenda is significant as she led the BoU’s takeover of the management of the **National Bank of Commerce (U) Ltd (NBC)** in September 2012 and **Crane Bank Ltd** in September 2016.²⁹ Chairman **Amos Nzeyi**, former prime minister **Amama Mbabazi**, and the former finance minister **Ezra Suruma** were amongst the owners of the NBC, before the BoU assumed control of the bank and immediately transferred its assets to Crane Bank.³⁰

Nzeyi is currently suing the BoU over the closure of the NBC, alleging it was in breach of the **Financial Institutions Act 2004**, and that Crane Bank engaged in fraud with NBC assets.³¹ Nzeyi is also party to a BoU case against former Crane Bank owner **Sudhir Ruparelia**, who is accused of allegedly fraudulent withdrawals from Crane Bank.³² Nzeyi has previously alleged that systemic fraud at Crane Bank was only possible with BoU collusion.³³ There are allegations that Ruparelia’s role as a key business ally and “*financier*”³⁴ of Museveni and alleged representative of the first family’s business

²² Source, senior UPF officer, Kampala

²³ Source, journalist, Kampala

²⁴ Source, journalist, Kampala

²⁵ Daily Monitor, 21 Mar 2018.

²⁶ Daily Monitor, 21 Mar 2018.

²⁷ Daily Monitor, 21 Mar 2018.

²⁸ Daily Monitor, 21 Mar 2018.

²⁹ Daily Monitor, 21 Mar 2018.

³⁰ The Observer, 26 Jul 2017.

³¹ The Observer, 26 Jul 2017.

³² Daily Monitor, 18 Jul 2017.

³³ Daily Monitor, 18 Jul 2017.

³⁴ Africa Confidential, 12 Jan 2007.

interests³⁵ shielded Crane Bank from regulatory scrutiny. Ruparelia reportedly fell out with Museveni several months prior to the BoU's intervention.³⁶

There appears to be a campaign against Bagyenda both inside and outside parliament. **Diamond Trust Bank Ltd** and **Barclays Bank of Uganda Ltd** both apologised in March for leaked details of Bagyenda's bank accounts that appear to show significant deposits, triggering social media allegations of possible corruption.³⁷ Both banks have challenged the accuracy of the leaked bank account details. Nevertheless, **Budadiri West MP Nandala Mafabi** has sought to have Bagyenda prosecuted for alleged breaches of the **Anti-Money Laundering Act 2013**.³⁸

The managerial changes at the BoU appear to have stalled. Bagyenda has refused to leave her post as director of commercial bank supervision, claiming Mutebile had dismissed her illegally.³⁹ The inspector general of government, **Irene Mulyagonja**, has ordered the BoU to stay the managerial changes until she can investigate their circumstances.⁴⁰ BoU employees, angered at the managerial changes, have petitioned Mulyagonja to broaden the investigation to include Mutebile's overall management of the BoU.⁴¹ Mutebile, however, said in a letter to Mulyagonja on 19 March – copied to Museveni, the prime minister, **Ruhakana Rugunda**, and parliamentary speaker, **Rebecca Kadaga** – that he intends to disregard her order suspending the changes.⁴² The day before the managerial changes, Mutebile met Museveni who reportedly raised concerns about the effectiveness of the BoU's supervision of the commercial banking sector, and the economic risks that further banking collapses pose.⁴³ The dismissal of Bagyenda as director of commercial bank supervision therefore appears to have presidential backing.⁴⁴

Mutebile is due to retire in 2020. He was originally scheduled to stand down at the end of his second term in January 2016, but Museveni lobbied for him to remain in post.⁴⁵ Ill health may, however, force Mutebile to stand down sooner: he has received treatment for unspecified health concerns since spending time in a **South African** hospital in 2015.⁴⁶ Possible frontrunners include current treasury secretary **Keith Muhakanizi**, a Museveni loyalist.⁴⁷ Muhakanizi reportedly retains Museveni's trust despite the parliamentary public accounts committee's (PAC) recommending his dismissal for allegedly lying over a contentious 700 billion Ugandan shillings (USh) (\$200m) **Eastern and Southern African Trade and Development Bank (TDB)** loan (see *ARC Briefing Uganda February 2018*). Another possible frontrunner is **Richard Byarugaba**, the **National Social Security Fund (NSSF)** managing director who has overseen improved management at the NSSF.⁴⁸ The third frontrunner is BoU deputy governor **Louis Kasekende**, who has good standing with donors as the former **African Development Bank** chief economist and former **World Bank** executive director, and would continue Mutebile's tough line on fiscal discipline.⁴⁹ As a BoU insider, Kasekende may, however, get caught up in criticism of its record of commercial banking supervision.⁵⁰ Outside possibilities to

³⁵ Source, business consultant, Kampala

³⁶ Source, journalist, Kampala

³⁷ Daily Monitor, 10 Mar 2018.

³⁸ Daily Monitor, 21 Mar 2018.

³⁹ Daily Monitor, 22 Mar 2018.

⁴⁰ Daily Monitor, 22 Mar 2018.

⁴¹ Daily Monitor, 22 Mar 2018.

⁴² Daily Monitor, 22 Mar 2018.

⁴³ www.chimpreports.com.

⁴⁴ www.chimpreports.com.

⁴⁵ www.chimpreports.com.

⁴⁶ www.ugandaradionetwork.com.

⁴⁷ www.chimpreports.com.

⁴⁸ www.chimpreports.com.

⁴⁹ Source, former western diplomat, Kampala

⁵⁰ Source, former western diplomat, Kampala

succeed Mutebile include economic transformation consultant **Augustus Nuwagaba** and **Makerere University** economics professor and **Centenary Bank Ltd** chairman **John Ddumba Ssentamu**.⁵¹

Mutebile has achieved an impressive record of financial discipline since the 2011 election when inflation rocketed as Museveni used Uganda's reserves to shore up electoral support. Museveni may use the appointment of Mutebile's successor to challenge the independence of the BoU.

Umeme records 77% decrease in profit

Uganda Securities Exchange (USE) and **Nairobi Securities Exchange (NSE)**-listed electricity utility **Umeme Ltd** published annual results showing a 77% year-on-year decrease in pretax profit on 29 March.⁵² The losses increase the likelihood that the government will not renew Umeme's 20-year concession, due to expire in March 2025. Umeme's profit before tax decreased to 44.6 billion Ugandan shillings (US\$) (\$12.1m) in 2017 from US\$198.1 billion (\$53.7m) the previous year.⁵³ In a note accompanying the results, Umeme blamed the impact of the **London** interbank offer rate (LIBOR) on its debt obligations.⁵⁴ Umeme also acknowledged the continued impact of high energy losses, which are a long-standing grievance with consumers who question the high tariffs they pay for an unreliable service due to Umeme's dilapidated distribution system.⁵⁵ Umeme, however, claimed that energy losses along the distribution network decreased to 17.2% in 2017 from 19% the year before.⁵⁶ In a move likely to further antagonise relations with consumers, Umeme said it would pay a total US\$12 billion (\$3.3m) in dividends to shareholders, subject to approval at the annual general meeting.⁵⁷ Umeme managing director **Selestino Babungi** said on 30 March that negotiations with Museveni over the extension of the concession are going "smoothly".⁵⁸ However, Museveni, in a letter in mid-March, appeared to instruct the energy minister, **Irene Muloni**, to suspend discussions with Umeme due to concerns about the affordability of electricity.⁵⁹ Museveni reportedly tasked government officials with finding an alternative company able to provide cheaper electricity.⁶⁰ If the government terminates Umeme's concession before the contracted end date, the government is required to pay compensation.⁶¹ Should the contract end as scheduled, the government will need to reimburse Umeme for its non-recovered costs.⁶² Umeme acquired its power distribution concession in 2005 as part of a broader unbundling of the power sector that saw the liberalisation of Uganda's transmission, distribution and generation networks, and the awarding of concessions for the operation of its existing generation assets. In March 2014, a parliamentary report petitioned the government to cancel Umeme's contract due to the alleged failure to meet its performance targets (see *ARC Briefing Uganda April 2014*).

The uncertainty about the future of the Umeme concession will make it harder for the company to secure the financing necessary to invest in its distribution network, further weakening its commercial performance. Institutional investors have divested from Umeme over the past 18 months in part due to concerns about political interference over its future.

⁵¹ www.chimpreports.com.

⁵² Reuters, 29 Mar 2018.

⁵³ Daily Monitor, 2 Apr 2018.

⁵⁴ Reuters, 29 Mar 2018.

⁵⁵ Reuters, 29 Mar 2018.

⁵⁶ Reuters, 29 Mar 2018.

⁵⁷ Daily Monitor, 2 Apr 2018.

⁵⁸ Daily Monitor, 2 Apr 2018.

⁵⁹ Daily Monitor, 2 Apr 2018.

⁶⁰ Daily Monitor, 2 Apr 2018.

⁶¹ Daily Monitor, 2 Apr 2018.

⁶² Daily Monitor, 2 Apr 2018.

Planner

Fourth quarter 2018 **(Uganda)** *UGBusiness*. Award of oil export pipeline engineering, procurement and construction contract;

Nov 2018 **(Uganda)** *East African*. Relaunch of national airline **Uganda Airlines**;

First half 2018 **(Uganda)** *Oil in Uganda*. Joint venture partners to make final investment decision on **Lake Albert** oil concessions;

First half 2018 **(Uganda)** *Oil in Uganda*. **Tullow Oil** to conclude farm-down agreement with **Total** and **China National Offshore Oil Corp**;

First quarter 2018 **(Uganda)** *UGBusiness*. Final investment decision on oil export pipeline, and government to select lead investor for **Hoima** oil refinery;

Chronology

30 Mar 2018 **(Uganda)** *Daily Monitor*. The **US Trade Representative's Office** confirms Uganda will continue to benefit from preferential treatment under the **African Growth and Opportunity Act (AGOA)**;

29 Mar 2018 **Kampala (Uganda)** *Reuters*. The **Uganda Bureau of Statistics** publishes data showing that year-on-year inflation decreased from 2.1% in February to 2% in March;

29 Mar 2018 **Kampala (Uganda)** *Reuters*. **Umeme Ltd** results show 77% year-on-year decrease in pretax profit;

28 Mar 2018 **Kampala (Uganda)** *Daily Monitor*. The **Constitutional Court** appoints five judges to hear case challenging constitutional amendment removing presidential age limit, and schedules first hearing for 9 April;

26 Mar 2018 **Kampala (Uganda)** *East African*. President **Yoweri Museveni** meets **Rwandan** counterpart President **Paul Kagame**;

24 Mar 2018 **(Uganda)** *East African*. Museveni prohibits exports of graphite to encourage domestic use;

23 Mar 2018 **(Uganda)** *Press release*. **Moody's** affirms Uganda's B2 long-term issuer rating with stable outlook;

22 Mar 2018 **(Uganda)** *Africa News*. The **Bank of Uganda** (central bank) warns that national debt increased from \$6 billion to \$15 billion in the past three years;

19 Mar 2018 **(Uganda)** *Daily Monitor*. The **East African Community** single customs territory officially launches;

17 Mar 2018 **(Uganda)** *East African*. **Stockholm International Peace Research Institute** data shows that Uganda spent \$18m on military expenditure in 2017, the highest in **East Africa**;

14 Mar 2018 **(Uganda)** *East African*. The **Rwandan** government commits to diplomatically resolving tensions over alleged mistreatment of Rwandan nationals in Uganda;

8 Mar 2018 **(Uganda)** *Xinhua*. The government issues request for proposals to develop nine hydropower plants in **Hoima, Bunyangabu, Kabarole, Bundibugyo, Bushenyi** and **Mitooma Districts**;

7 Mar 2018 **Kampala (Uganda)** *Daily Monitor*. Parliament approves appointments of **Martin Okoth Ochola** and **Elly Tumwine** as inspector general of police and security minister respectively;

6 Mar 2018 **Kampala (Uganda)** *The Observer*. The cabinet approves amendments to the **National Social Security Fund (NSSF) Act**, rendering the **Retirement Benefits Sector Liberalization Bill 2011** obsolete;

4 Mar 2018 **Kampala (Uganda)** *The Independent*. Museveni dismisses Inspector General of Police, **Kale Kayihura**, and **Henry Tumukunde**, the security minister.

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