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President Yoweri Museveni (1986-present) reshuffles cabinet, notably replacing finance minister Maria Kiwanuka. Her successor is Matia Kasaija, formerly a junior finance minister. Museveni is increasingly likely to amend the constitution in an attempt to remain in power beyond 2021. An International Republican Institute survey reveals that a constitutional amendment would be unpopular. Parliament rejects the finance ministry's request for a Shs 847.2 billion (\$284m) supplementary budget as the government's fiscal discipline begins to slide before the 2016 elections. The reshuffle, increased speculation about a constitutional amendment and supplementary budget signal that the 2016 election is already distracting the National Resistance Movement from effective governance. The United States (US) embassy warns of possible terrorist attack targeting westerners in Kampala.

Museveni reshuffles cabinet

President **Yoweri Museveni** (1986-present) launched a limited cabinet reshuffle on 1 March, notably replacing finance minister **Maria Kiwanuka**.¹ The reshuffle is part of a wider trend of Museveni shoring up support within the ruling **National Resistance Movement (NRM)** ahead of the 2016 elections, which Museveni is expected to contest. **Matia Kasaija**, previously a junior finance minister, will succeed Kiwanuka who will remain a presidential adviser on finance.² Kasaija is an NRM loyalist.³ Museveni also appointed **David Bahati**, author of the 2014 anti-homosexuality legislation, as planning state minister as he looks to increase support amongst conservative voters. **Mary Karoro** is the new security minister, despite not having a security background.⁴ All other key ministers including energy minister **Irene Muloni** retained their offices.

The reshuffle aimed to bring loyalists to the former prime minister, **Amama Mbabazi**, a potential challenger to Museveni in the 2016 election, into cabinet as Museveni continues a policy of divide and rule amongst his opponents. Notably, a number of appointments were from **Kigezi (Western Uganda)**, Mbabazi's homeland.⁵ Uganda media reported on 9 March that Mbabazi has held talks with several opposition leaders to embrace him as their joint candidate for the 2016 presidential election.⁶

It is increasingly likely that Museveni will amend the constitution to remove the age limit, which prevents him from standing in the 2021 elections.⁷ Inquiries in Uganda suggest that Museveni – born 15 August 1944 and now 70 – wishes to contest both the 2016 and 2021 elections before handpicking and installing his chosen successor.

*“[Museveni] has [also] been muttering in private that ‘of course, no-one back then in Africa really had an accurate record of when they were born’ – everything was just an approximation, etc. His assertion is wrong, because the colonial and pre-colonial systems were actually pretty reliable, and Museveni’s father was in the **British Army**, whose records were quite good.”⁸*

1 The Observer, 1 Mar 2015.

2 The Observer, 1 Mar 2015.

3 Mail and Guardian, 2 Mar 2015.

4 Daily Monitor, 3 Mar 2015.

5 Daily Monitor, 3 Mar 2015.

6 Observer, 9 Mar 2015.

7 Source, western diplomat

8 Source, financier in Uganda familiar with Museveni family interests

The source interpreted this discourse to confirm that Museveni intends to remain in power beyond 2021 and that he may even attempt to say he was actually born before 1944 in order to run in 2021 without changing the constitution. A diplomatic source rated it “*highly probable*” that Museveni would amend the constitution to remain in power after 2016 if it suited his purpose (such as stronger-than-expected opposition to his son Brigadier **Muhoozi Kainerugaba Museveni (MKM)** as a candidate). The source added that Museveni could easily use any post-2016 constitutional amendment process to make other (popular) constitutional changes, as those that suit conservative interests (e.g. religious groups) or mollify liberal groups (e.g. development NGOs), or reassure Uganda’s foreign aid donors (or all three).

Any attempt to amend the constitution to remove the presidential age limit would be unpopular. A **United States (US) International Republican Institute (IRI)** survey has revealed that most Ugandans back retaining the constitutional presidential age limit. The constitution prevents anyone aged 75 or above from standing for the presidency. A total of 66% of respondents in the IRI survey back the age limit.⁹ A similar proportion of respondents agreed that the constitution should limit presidents to two terms of office.¹⁰ Approximately 70% of respondents wanted the **Electoral Commission (EC)** to have greater independence and for the president to no longer appoint EC commissioners.¹¹ The cabinet is currently discussing reform of the EC but this is unlikely to happen before the 2016 elections.

The survey also showed general support for the government’s performance, with 69% of respondents stating that the country is moving in the right direction.¹² However, only 41% of respondents believe that the economy has improved since the 2011 election,¹³ and 69% criticise government efforts to address corruption.¹⁴ Respondents said that the government should prioritise unemployment and corruption. The IRI survey also highlighted the dominant position of the ruling NRM ahead of the 2016 elections with 60% of respondents claiming that no other party would have governed as well since 2011.¹⁵

Parliament rejects supplementary budget request

The parliamentary budget committee rejected the finance ministry's request for a Shs847.2 billion (\$284m) supplementary budget on 19 March.¹⁶ The ministry's request for additional funds signals that budgetary and fiscal discipline is beginning to slide before the 2016 election. The supplementary budget represented a 5% spending increase on the original 2014-2015 budget and would increase Uganda’s budget deficit.

The budget committee's rejection of the supplementary budget request highlights concerns that government spending is becoming increasingly politicised. The NRM-dominated parliament rarely rejects government-sponsored financial packages. The parliamentary budget committee criticised the government for spending Shs578 billion (\$194m) without parliamentary approval and for contracting US-based public relations company **Scribe Strategies and Advisors Inc.** to improve the country’s image following the controversial anti-homosexuality legislation in 2014.¹⁷ The committee also rejected a request for Shs300m (\$100,000) for the **African Growth and Opportunity Act (AGOA)**, which is due for renewal in September. The committee described the AGOA request as a “*conduit to abuse public funds*”.¹⁸ The committee ruled that the supplementary budget request violated parliamentary speaker **Rebecca Kadaga**’s guidelines that parliament will only approve supplementary budgets for unforeseen expenditure. Kadaga has increased her profile in recent years and is a possible challenger to Museveni.¹⁹

9 www.iri.org

10 www.iri.org

11 Source, western diplomat

12 Source, western diplomat

13 Source, western diplomat

14 Source, western diplomat

15 Source, western diplomat

16 Daily Monitor, 21 Mar 2015.

17 Daily Monitor, 21 Mar 2015.

18 Daily Monitor, 21 Mar 2015.

19 Source, former western diplomat, Kampala

The NRM government has a poor record of economic management around elections; greater spending will increase pressure on Uganda's already stretched fiscal position. Ratings agency **Fitch** has already warned of a budget deficit of 5% in 2014 and expects one of 7.2% in 2015. Higher budget deficits should be expected from 2016 to 2018.²⁰

The strengthening dollar on the back of a re-bounding US economy and lower Ugandan export earnings has sent the shilling to historic lows. The shilling reached an all-time low of 3,080 to the US dollar in March.²¹ Since the start of 2015, the **Central Bank of Uganda (CBU)** has sold \$226.32m in an effort to slow the shilling's decline, but foreign exchange markets remain volatile.²² According to the CBU, the shilling has come under pressure on account of a very strong dollar and increased demand in the corporate sector to fund imports and dividend payments.²³

In the long term, Uganda needs to increase exports to bring more dollars into the economy. In 2014, exports declined to \$2.6 billion from \$2.8 billion in 2013 on account of lower revenue from cotton, coffee and tobacco, among others. An end to the conflict in **South Sudan** is an important factor in boosting Uganda's exports. South Sudan is Uganda's largest export market, with an annual export potential of more than \$397m, according to 2014 trade ministry data.²⁴ The civil war in South Sudan will continue into the medium term with political settlements proving fallible in the face of continued clashes.

The government has made its first forecast of economic growth since it conducted a GDP rebasing in November 2014. On 2 March it predicted growth of 5.3% during the current fiscal year on the back of increased infrastructure investment.²⁵ It expects the economy to grow by 6% in the medium term.²⁶ According to the government, the economy grew 4.5% in 2013-2014.²⁷ Increased public investment will increase exposure to debt, increasing both inflationary pressures and yields on government debt.

Government longer-term growth forecasts assume that commercial oil production will begin in 2018, which is unlikely. Much of its forward economic planning is based on anticipated oil revenues that may not materialise due to the slump in global oil prices making it extremely unlikely that Uganda's recently discovered oil reserves in the **Lake Albert** basin can be exploited profitably. This is an increasing source of tension between the government and the CBU. In March, CBU governor **Emmanuel Tumusiime-Mutebile** warned that the decline in crude oil prices will hit the flow of investment capital into the nascent oil and gas sector and dampen wider economic growth.²⁸

*"We have to be honest and recognise that it has become more likely that public revenues from oil over the long term will be lower than we had previously expected ... A fall in global oil prices translates directly into a fall in public revenue and hence a fall in national income. Consequently, the uncertainty about the level of future global oil prices also translates into uncertainty about the amount of national income that will be derived from oil and hence the magnitude of any future rise in demand for non-traded goods in the Ugandan economy."*²⁹

Under a 2013 agreement with the **International Monetary Fund (IMF)**, the government has pledged to introduce amended CBU legislation to parliament by April 2015 to guarantee the CBU a degree of independence. This has yet to appear and Museveni may look to increase his control over the economy in the run-up to elections.³⁰ Should tension between the president and the CBU over spending force Tumusiime-Mutebile to resign before the end of his term in 2017, his likely successor is deputy governor **Louis Kasekende**. His instinct would be to follow Tumusiime-Mutebile's tough line to encourage fiscal

20 Source, former western diplomat, Kampala

21 East African Business Week, 15 Mar 2015.

22 www.monitor.co.ug

23 www.monitor.co.ug

24 www.monitor.co.ug

25 Reuters, 2 Mar 2015.

26 Reuters, 2 Mar 2015.

27 Reuters, 2 Mar 2015.

28 Reuters, 2 Mar 2015.

29 East African Business Week, 8 Mar 2015.

30 Source, former western diplomat, Kampala

discipline but Museveni would probably make it a condition of his appointment that he loosen the fiscal strings pre-election.³¹

United States warns of terror attack

The US embassy has warned that a terrorist attack may target westerners in **Kampala**. While the statement did not refer to a specific terrorist group, the US has regularly warned about the possibility of **al Shabaab** targeting Kampala or **Entebbe**. The US warned that it received information of a possible terrorist threat to locations where westerners congregate. Ugandan authorities have previously used vague warnings as an excuse to maintain a high security presence in the opposition heartland of Kampala.³² The US embassy said it has cancelled events at local hotels and that westerners “*should expect increased security sweeps and delays when entering or exiting hotel areas*”.³³

The warning comes amid increased al Shabaab activity in northern **Kenya** and officials warning of a possibility of a major attack in **Nairobi** (see *ARC Kenya March 2015 Briefing*). Al Shabaab has not carried out a major attack in an **African Union Mission in Somalia (AMISOM)** contributing state since the death of **Sheikh Ahmed Godane (Abu Zubayr)** in September 2014. Al Shabaab leadership is divided between those who want it to remain loyal to **al Qaeda** and those who prefer an alliance with the **Islamic State**.³⁴ Pressure may be growing on Godane’s successor, **Ahmed Umar Abu Ubaida**, to prove his jihadist credentials.³⁵

In September, Ugandan security forces disrupted an al Shabaab plot apparently in its final stages. The major security operation apparently followed Ugandan and western intelligence about the transfer of explosive suicide vests. In July 2010, al Shabaab claimed responsibility for an attack that killed at least 76 people in twin bombings at a sports bar and **Ethiopian** restaurant in Kampala. Previous warnings by both Ugandan officials and western embassies have listed potential targets as hotels, restaurants, diplomatic missions, transport hubs, government buildings or public transport.

Implications

Museveni’s manoeuvring to secure his succession will distract the NRM from effective governance and economic policy-making. Challenges to Museveni continue to be more likely to emerge from within the NRM than from the weak and fractured opposition.

Increased spending before the 2016 elections will add strain on public finances with the deficit widening and the fiscal balance deteriorating, resulting in currency depreciation and upwards inflationary pressures. Investors will fear a repeat of the 2011 election when fiscal discipline collapsed entirely with the government resorting to passing supplementary budgets, printing money and raiding Uganda’s official reserves.

The threat of an al Shabaab attack on key infrastructure or places frequented by westerners in Kampala or Entebbe remains high. An attack would undermine the authority of the NRM government but not destabilise it. Potential targets include clubs, hotels, resorts, shopping centres, transport hubs and places of worship.

³¹ Source, former western diplomat, Kampala

³² Source, security analyst

³³ AFP, 25 Mar 2015.

³⁴ Source, security analyst

³⁵ Source, security analyst

About Africa Risk Consulting:

Africa Risk Consulting (ARC) is a pan-African consulting company that provides timely, relevant information and advice that enables its clients to take informed investment decisions and to safeguard their reputations.

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