



UGANDA BUSINESS NEWS MONTHLY BRIEFING SERIES

08/06

AUGUST 2016

Overview

The Supreme Court released its full ruling in the petition challenging the results of February's presidential election. The petition was dismissed in favour of **President Museveni** and the Electoral Commission. The recommendations arise from an application by Makerere law professors in support of **Amama Mbabazi's** petition. The court's ruling contains ten recommendations it tasked the **Attorney General** to implement and give an update on the process in the next two years.

Annual headline inflation fell to its lowest level in 16 months, coming in at 4.8% for August, according to data from the Uganda Bureau of Statistics. **Core inflation**, which is targeted by the Central Bank, also fell to 4.9% year-on-year, just below Bank of Uganda's policy target of 5%.

Bank of Uganda cut its benchmark lending rate by 100 basis points in August, citing an improved near-term inflation outlook on account of a stabilised exchange rate. It named exchange rate pressures caused by "uncertainty over international events" and weather uncertainties that could lead to an increase in the prices of food as possible risks to its outlook.

The Ministry of Energy and Mineral Development granted eight **oil production licences** to **Tullow Uganda Operations Pty Limited** and **Total E&P Uganda B.V.** The development will allow the companies to commence exploration activities and gives a new impetus to Uganda's oil production ambitions. The companies are expected to spend over \$8 billion in exploration and production activities for the licences, according to the government.

The Politics

The **Supreme Court** released its full ruling in the petition challenging the results of February's presidential election. The petition was dismissed in favour of **President Museveni** and the Electoral Commission. The recommendations arise from an application by Makerere law professors in support of **Amama Mbabazi's** petition. The court's ruling contains ten

recommendations it tasked the **Attorney General** to implement, with an update on the progress due in the next two years.

Some of the recommendations are: extend the time limit in which a petition can be filed and during which the court has to decide petitions; prohibit public officials from publicly siding with candidates; fundraising and donations by presidential candidates should be made illegal; enactment of sanctions against state media if it refuses to give equal time to each candidate; any election related law reform be undertaken within two years of the establishment of the new Parliament; the law should be amended to make it permissible for the Attorney General to be one of the respondents in the presidential election.

The Court of Appeal halted the private prosecution of the Inspector General of Police and several senior officers until a petition before the Supreme Court challenging their trial is disposed of. **Kale Kayihura** and the officers are accused of torture in relation to the police's handling of opposition supporters who turned out to greet FDC's Kizza Besigye on his release from prison in July.

Makindye Magistrates Court, which is hearing the case, declined a request by the Directorate of Public Prosecutions to take over the prosecution. The court asked the DPP to make a formal application to take charge of the prosecution. The DPP is appealing the decision in the high court.

The Minister of Internal Affairs however said the IGP will not appear before court to be tried because it would equate to prosecuting the government. **Jeje Odong** said that as IGP, Kayihura is an institution. The IGP refused to go to court on the day he was scheduled to. Instead, a group of protesters disrupted court proceedings and attacked the lawyers prosecuting the IGP, saying he was being charged for legally doing his job. The disruption was later criticised by the Chief Justice as "unacceptable."

Other senior officers are facing similar charges in the Police Disciplinary Court. The field commanders were in charge of police personnel on the day Besigye was released and excessive force used to disperse his supporters. They are accused of failing to restrain their juniors.

A ruling party Member of Parliament twice tried to table a bill that would amend the constitution to increase the retirement age of judges and remove term limits for Electoral Commission commissioners. The opposition contends that the bill is a ploy to extend the retirement age of the president; Museveni will be older than the mandated 75-years at the end of his term and therefore ineligible to stand again. A parliament sitting to consider the bill was suspended because none of the two speakers was available to preside.

The Minister of Lands says she will table a bill seeking to amend the land law to make it easier for the government acquire land for infrastructure projects. The bill would make it impossible to refuse or challenge government's interest in a piece of land; compensation would be discussed later. The minister says the current law - which requires the government

to compensate landowners before it acquires their land - is slowing down government programs. Its Critics say the bill will make it easier for land grabbers to steal land.

Burahya County Member of Parliament **Margaret Muhanga** handed over a title deed for land belonging to the Uganda Broadcasting Corporation she is accused of fraudulently obtaining. Muhanga's acquisition of the land - which was unearthed three years ago by the Daily Monitor - came up during a parliamentary investigation into mismanagement at the Uganda Broadcasting Corporation arising from a damning audit of the parastatal by the Auditor General. The MP could not prove how she paid for the 23 acres of land, which she soon sold to businessman Hassan Basajjabalaba. Three courts - the High Court, Appeals Court, and Supreme Court - later ruled that the transactions were illegal.

Ruling National Resistance Movement party picked up all the seats on offer in elections held in the new districts of Kagadi, Kibaale and Kakumiro districts. The districts were voting for district chairpersons and Woman Members of Parliament.

The High Court cancelled results from the Kalungu District Chairperson race and ordered new elections. It accused Electoral Commission officials in the district of flouting electoral laws and wrongly declaring the NRM candidate victorious; the petition was brought by a candidate from the opposition Democratic Party.

The renovation of Abim Referral Hospital in Abim District was concluded this month. The hospital gained notoriety in the presidential campaigns when opposition politician **Kizza Besigye** visited and highlighted its poor state before television cameras. A month later Shs700 million was released by the government to renovate the hospital.

A senior police officer who has been at the center of a dispute between the Public Prosecutor and Police because his employer had refused to arrest him surrendered himself to a magistrate's court for trial. Former Kampala central police station commander **Aaron Baguma** is accused of abetting the murder of a woman by Kampala car traders. The DPP had twice asked Police to produce Baguma so he could be charged but police refused to act of them. It then appealed to court, which issued a warrant of arrest.

The Economics

Inflation & Central Bank Rate

Annual headline inflation fell to its lowest level in 16 months, coming in at 4.8% for August, according to data from the Uganda Bureau of Statistics. **Core inflation**, which is targeted by the Central Bank, also fell to 4.9% year-on-year, just below Bank of Uganda's policy target of 5%.

The statistics bureau attributes the drop in annual headline inflation – which fell 0.3% compared to the July figure – to the decline in core inflation. Prices of other goods, which fell 0.6%, and prices of services (1.1% fall) pulled down core inflation. The prices of food crops and related items, on the other hand, rose 2% to 5.2%, driven by a 4.6% rise in the prices of fruits.

Energy, Fuel and Utilities prices came in at 3.0% versus 2.1% the previous month, due to a 6.5% rise in the prices of electricity.

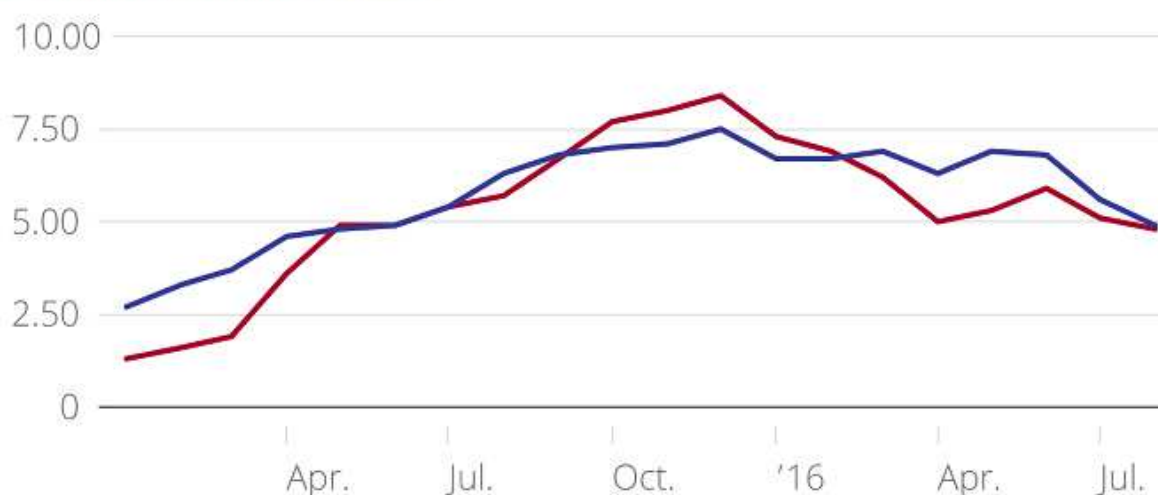
Bank of Uganda cut its benchmark lending rate by 100 basis points in August, citing an improved near-term inflation outlook on account of a stabilised exchange rate. It named exchange rate pressures caused by “uncertainty over international events” and weather uncertainties that could lead to an increase in the prices of food as possible risks to its outlook. The **shilling** however held steady against the dollar in August, gaining 0.06%.

The low income group in Kampala registered the highest annual inflation of 6.2% versus 5.6% in July, with a 0.1% rise in education prices contributing the most to the increase. The Arua geographical area registered the second highest inflation of 6.0% versus 6.2% in July, while Jinja had the third highest rate of 5.7% versus 5.8% in July.

Monthly headline inflation rose 0.5% versus 0.2% the previous month. Monthly core inflation and monthly food crops and related items also rose 0.3% and 1.9% respectively. Monthly energy, fuel, and utilities also rose 0.6%, compared to the -0.8% registered in July 2016.

Annual Headline & Core Inflation from 2015

■ Annual Headline ■ Core



Uganda Business News

Data: Uganda Bureau of Statistics

The Numbers

	July 2016	August 2016
Headline	5.1	4.8
Core (excludes food and energy prices)	5.6	4.9

EFU (Energy, fuel and utilities)	2.1	3.0
Food crops and related items	3.2	5.2
Central Bank Rate	15	14

Currency Markets

Exchange Rates	August 01		August 31	
	Buying	Selling	Buying	Selling
US Dollar	3372.36	3382.36	3370.64	3380.64
Pound Sterling	4474.11	4487.38	4414.19	4427.29
Euro	3770.30	3781.48	3758.60	3769.75

Interest Rate Caps

The Uganda government is not planning to cap interest rates like neighbouring Kenya, according to the State Minister of Finance for Planning, **David Bahati**. Bahati said such legislation would lead to a "mess."

Instead, the Uganda government plans to help businesses access capital by capitalising the Uganda Development Bank, Mr Bahati said. He said government has invested Shs50 billion in the bank, which will go up to Shs500 billion in five years.

Mr Bahati said that of recent there have been calls asking the government to play a larger role in the economy through legislation, something it is reluctant to do. "We believe that the economy should be driven by the private sector," the minister said.

Mr Bahati's remarks echo those expressed in a speech by President **Yoweri Museveni** at the Joseph Mubiru Memorial Lecture in September 2015, which indicated that his government does not intend to return to the days when interest rates were centrally controlled. "The lending rates which banks charge are market-determined," Mr Museveni said in the speech, delivered by Mr Bahati.

Kenya's president signed into law a bill that establishes a cap on interest rates for bank loans. The bill caps interest rates at four percentage points above the Central Bank base rate. It also requires deposit interest rates to be at least 70% of the benchmark rate.

The Banking (Amendment) Bill, 2015, which was passed by Parliament in July, also requires banks and financial institutions to “disclose all the charges and terms relating to the loan” before granting a loan to the borrower.

Kenya’s Central Bank has opposed the law, releasing a statement “expressing concern on the adverse consequences of capping interest rates” when the bill was passed by Parliament. These adverse consequences, according to the statement, include “inefficiencies in the credit market, credit rationing, promotion of informal lending channels, and undermining the effectiveness of monetary policy transmission.”

Credit Ratings

Fitch Ratings affirmed its B+ rating on Uganda, citing the country’s high levels of infrastructure spending and its sound macroeconomic policy framework. The rating agency has a stable outlook on Uganda.

Fitch foresees more gains in growth in the medium term, spurred by ongoing investment in infrastructure. The infrastructure projects “include the ongoing construction of the Karuma and Isimba hydro-electric power plants, which are scheduled for completion in 2017 and 2018 respectively; the development of the oil sector, which will bring first oil in 2020 or 2021; and railway construction, for which feasibility studies are ongoing.”

Even though the rating agency drew attention to Uganda’s widening fiscal deficit which it says could rise to “6.8% of GDP, higher than the ‘B’ median of 4.1%” this financial year, it considers it less risky since it is largely driven by investment. An expected rise in capital spending to 10% of GDP in the next two years “will likely be offset by containing current expenditure and increasing tax revenues,” Fitch said.

“Uganda’s fiscal reforms will continue to be supported by an IMF Policy Support Instrument and economic programme focused on revenue mobilisation and public financial management reforms.”

Additionally, the increasing ratio of public debt to GDP – which currently stands at 34% of GDP – is mitigated by the fact that most of it is either external concessional loans or other soft loans.

However, Fitch added that Uganda’s “weak governance and a weak business environment” constrained the rating, and underperform the B median. Of particular concern is the high levels of recurrent expenditure, low tax revenue, and slowing credit to the private sector. Uganda’s high population growth of over 3% is responsible for a per capita income less than one quarter of the B median, it also said.

Revenue Collections

Not released.

Commodities

Coffee

Coffee exports in July 2016 rose 0.81% month-on-month, but fell 33.33% year-on-year, according to figures from the **Uganda Coffee Development Authority**. The value of the exports, on the other hand, gained 1.98% month-on-month and fell 37.02% year-on-year.

268,490 60-kilo bags of coffee worth \$27.06 million were exported by Uganda last month, compared to 402,721 bags worth \$42.95 million in the same period last year. In June, 266,337 bags worth \$26.53 million were exported.

Compared to July 2015, the total volume of Robusta exports fell 37.28% while Arabic exports declined 7.56%. "In terms of value, Robusta decreased by 40.28% while Arabica decreased by 22.65%," according to UCDA.

Equities

Uganda Stock Exchange

All Share Movers (One-month change)

USE All Share Index (USE ALSI)	-15.15%
USE Local Company Index (USE LCI)*	-0.76%

Uchumi (UCHM)	15.46%
UMEME LIMITED (UMEM)*	4.37%

Equity Bank Limited (EBL)	-34.64%
KCB Group (KCB)	-21.02%
Centum Investment Company Ltd	-16.60%
Uganda Clays Limited (UCL)*	-13.33%
East African Breweries Limited (EABL)	-11.95%
National Insurance Corporation (NIC)*	-8.33%
Kenya Airways (KA)	-7.87%
Stanbic Bank Uganda (SBU)*	-3.70%
Nation Media Group (NMG)	-3.35%
Bank of Baroda Uganda (BOBU)*	-0.72%

Jubilee Holdings Limited (JHL)	-0.03%
--------------------------------	--------

*British American Tobacco Uganda	0.00%
*Development Finance Company of Uganda Ltd	0.00%
New Vision Printing and Publishing Company Ltd (NVL)	0.00%

Half Year Results

Stanbic Bank Uganda's unaudited half-year results showed net profit up 56.9%, while total operating income rose 28%. Net profit for the first half of the year was Shs107.29 billion, compared to Shs68.37 billion last year. Total operating income also rose to Shs334.42 billion from Shs261.22 billion last year. The results showed a 56.92% rise in earnings per share to Shs4.19 from Shs2.67 last year. Shareholders equity rose 34.52% to Shs627.32 billion from Shs466.32 billion in 2015.

Dfcu Bank registered a 70.71% growth in net profit and 20.08% growth in net income in the first half of 2016. Net profit for the period was Shs23.32 billion compared Shs13.66 billion for the first half of 2015. Net income also rose to Shs83.79 billion from Shs69.77 billion last year. Operating expenses rose 7.64% to Shs48.07 billion from Shs44.66 billion last year. On the other hand, the provision for bad loans fell 32.33% to Shs5.28 billion from Shs7.81 billion last year. Earnings per share rose 70.73% to Shs46.90 from Shs27.47 last year. Shareholders equity rose 16.20% to Shs238.45 billion from Shs205.20 billion in 2015.

MTN Uganda shrugged off a difficult last quarter of 2015 to grow its subscriber base by 10.8% to just under 10 million customers in the first six months of 2016. The country's largest company by revenue and biggest telecom increased its market share to 52.7% but total revenue fell 2.3% on the back of lower revenue from voice calls and a culling of unregistered subscribers at the end of 2015. The One Network Area, an initiative to reduce roaming and cross-border telephony charges in the East African Community, also hit revenues. However, data revenue increased by 22.7% on the back of short-duration bundles, and data contributed 32.8% of revenues in the first half of the year, signalling its growing importance to the telecom.

The company also launched a banking facility that allows its customers to borrow and save using their mobile money accounts. The service allows MTN subscribers to save money or apply for a one-month loans not exceeding Shs1 million at an interest of 9%. The service is being offered through a partnership with Commercial Bank of Africa.

Roofing tiles maker **Uganda Clays Limited (UCL)** returned to profitability in the first half of 2016, posting a Shs1.3 billion (\$0.38 million) profit reversing a similar loss from the same period in 2015, according to unaudited financials released by the firm. Revenues rose 8.9% to

Shs12.4bn (\$3.7mn) from Shs11.4bn (\$3.4mn) while cost of sales fell marginally by 0.7% to Shs7.96bn on the back of tight cost-savings. Management said performance had been weighed down by tight liquidity in the Ugandan market in the election-dominated first half of the year, as well as political instability in South Sudan, a key market. Assets grew marginally from Shs62.7bn to Shs63.7bn and liabilities fell 2.9% to Shs36.1bn while an improvement in net cash flows from investing activities of Shs3.1bn increased cash and cash equivalents by Shs2.1bn. Shareholders' equity grew 8.3% to Shs27.6bn from Shs25.5bn year-on-year while retained earnings doubled from Shs3.1bn to Shs6.6bn. Earnings per share improved to Shs1.41 while return on equity and return on assets were at 4.61% and 2% respectively

Follow our market coverage [here](#).

Energy, Oil & Gas

The Ministry of Energy and Mineral Development granted eight **oil production licences** to **Tullow Uganda Operations Pty Limited** and **Total E&P Uganda B.V.** The development will allow the companies to commence exploration activities and gives a new impetus to Uganda's oil production ambitions.

Tullow was granted five licences for Exploration Area 2, while Total was granted three licences for Exploration Area 1. The two companies – together with China National Offshore Oil Corp. – have an equal stake in the exploration areas.

The three companies are expected to spend over \$8 billion in exploration and production activities for the licences, according to the government.

The licences have a duration of 25 years and can thereafter be renewed for 5 more years.

The final investment decision on the projects is expected 18 months after the issuance of licences, much later than what the companies had projected. Tullow, for example, had planned to make a final investment decision in early 2017; that decision, though, was based on it receiving a licence in 2015.

Revenues from the licences are estimated to average \$1.5 billion annually for as long as production is ongoing. The licenced fields have the potential to produce between 200,000 and 230,000 barrels of oil per day, according to the energy ministry.

Ernest Rubondo was appointed as the first Executive Director of the Petroleum Authority of Uganda. The petroleum authority was set up under the Petroleum (Exploration, Development and Production) Act 2013 to monitor and regulate the exploration, development and production of petroleum in Uganda. The authority also advises the energy minister in the negotiation of petroleum agreements and in the granting and revocation of licences.

His appointment is a step towards the operationalisation of the Petroleum Authority of Uganda, which analysts have blamed for the postponement of the first date of oil

production. The delays arose from the absence of an operational Petroleum Authority, whose board was only constituted this year.

President Museveni appointed Badru Kiggundu, the Electoral Commission Chairperson, to chair a committee that will oversee the completion of Isimba and Karuma Hydropower Projects. Museveni asked the Energy Minister to review work on the dams in march following a complaint by the Uganda Electricity Generation Company Limited Energy ministry officials were ignoring shoddy work on the projects after taking bribes. Museveni later ordered that supervision of the projects be overseen by the Uganda Electricity Generation Company Limited instead of the Energy Ministry, but the directive was ignored by the Ministry. Kiggundu's tenure at the Electoral Commission comes to an end in November.

Regional

Kenya, Uganda, and Rwanda sign a trade deal between the **East African Community** and the **European Union** that will see EAC countries exporting goods to the EU at reduced tariffs. Tanzania, which has opposed the deal since it was announced, is still holding out. Tanzania's reservation is that it does not benefit from the Economic Partnership Agreement since it already exports goods to the EU duty-free and quota-free under the Everything But Arms scheme without providing the same terms to the bloc. However, the EPA necessitates the EAC nations opening up their markets to the EU under similar terms. This will benefit the EU at the expense of the EAC, according to Tanzanian officials. Other nations can however sign the agreement without Tanzania. The deadline to ratify the deal is 30 September.

Monthly Brief, Uganda Business News

Get in touch: info@ugbusiness.com

Subscribe [here](#) to receive the briefing in your inbox.