ESID Working Paper 175.

The politics of central banking in Uganda: Exploring the rise and fall of Uganda's premier 'pocket of effectiveness'

Sam Hickey[1] and Haggai Matsiko [2]

December 2023

[1] The University of Manchester, UK

Email correspondence: sam.hickey@manchester.ac.uk

[2] Independent researcher and journalist.

Email correspondence: hmatsiko@gmail.com

ISBN: 978-1-912607-29-7

This research was funded by the ESRC and the former UK Department for International Development, which merged with the Foreign & Commonwealth Office on 2 September 2020 to become the Foreign, Commonwealth & Development Office. However, the views expressed and information contained in it are not necessarily those of, or endorsed by the UK government, which can accept no responsibility for such views or information or for any reliance placed on them.

email: esid@manchester.ac.uk
Effective States and Inclusive Development Research Centre (ESID)
School of Environment, Education and Development, The University of Manchester, Oxford Road, Manchester M13 9PL, UK
www.effective-states.org

Abstract

The Bank of Uganda (BoU) was until recently considered to be the country's premier pocket of bureaucratic effectiveness. After gaining independence in 1993, BoU delivered effectively on its mandate throughout most of the 1990s and 2000s, enjoying the political protection and ideological support of the political leadership, strong governorship and generous support from international financial institutions. However, the Bank's performance in terms of both monetary and banking supervision dipped sharply from 2010. With Uganda's political settlement becoming increasingly vulnerable and personalised, BoU was subject to political capture around the 2011 elections, leading to a significant spike in inflation. Central bank officials swiftly reduced inflation and re-enforced price stability, albeit through punishingly high interest rates that undermined growth, and its leadership fought a rearguard battle to regain autonomy ahead of the 2016 elections. The changing political settlement also undermined BoU's performance in banking supervision. Official investigations into three controversial bank closures between 2012 and 2016 revealed that they were badly handled, involved collusive activities amongst BoU officials, and were informed by both an internal leadership crisis and, most likely, external political interference. BoU has not been able to escape being captured within Uganda's survivalist politics, with de jure autonomy and international support able to limit but not arrest its decline.

Keywords: political settlement, Bank of Uganda, inflation, financial stability, banking, pocket of effectiveness

Hickey, S. and Matsiko, H. (2023) The politics of central banking in Uganda: Exploring the rise and fall of Uganda's premier 'pocket of effectiveness'. ESID Working Paper No. 175. Manchester, UK: The University of Manchester. Available at www.effective-states.org

1. Introduction

> The primary purpose of the Bank is to foster price stability and a sound financial system. Together with other institutions, it also plays a pivotal role as a **centre of excellence** in upholding macroeconomic stability.[1]
>
> BoU's mandate is financial stability and macro stability, and pretty much we have achieved this. The exceptions were 2011 regarding the macro and Crane Bank with financial stability…[2]

Until mid-2018, Uganda's central bank had been largely respected for being one of the very few public sector organisations to hold out against the general decline in public sector governance in Uganda over the past two decades (Bukenya and Muhumuza 2016). Since gaining independence in 1993, the Bank of Uganda (BoU) had been credited with playing a major role in reducing inflation, maintaining macroeconomic stability and providing the conditions for sustained growth. The BoU governor, appointed in 2001, had become one of the country's most recognisable public figures and been garlanded as African Central Bank Governor of the Year on several occasions. BoU's reputation had been tarnished previously, particularly after it was persuaded to 'print money' in support of President Museveni's 2011 election campaign, a move that helped push inflation levels up to 30 per cent. However, BoU had swiftly brought inflation back under control and then avoided capture at the 2016 polls. The crisis that broke thereafter, and which has left BoU's reputation as a 'centre of excellence' in tatters, concerned its other key mandate of banking supervision, and its approach to bank closures, particularly following the manner in which BoU intervened in 2016 to close the country's largest domestically owned bank, Crane Bank.

Since mid-2018, successive investigations were ordered into BoU. Parliament ordered the auditor general to investigate the bank closures and the parliamentary committee on Commissions, Statutory Authorities and State Enterprises (COSASE) used the ensuing report as the basis for public hearings. Another investigation, ordered by the president, examined the staff changes that the governor had made in January 2018 and comprised members from COSASE, the inspector general of government's office and the BoU board. These investigations revealed that some BoU officials were complicit in malpractice and highly collusive activities around bank closures and that BoU's revered leadership team was in crisis, riven by a factional struggle between the governor and his deputy. The highly public nature of the parliamentary investigation undermined BoU to such an extent that some politicians have started to call for governance reforms to place BoU under greater scrutiny by parliament. Fearful of any reduction in central bank autonomy, the International Monetary Fund came out in strong support of the institution with which it has had a close working relationship since the early 1990s, and within whose building its offices are located. Despite remaining

[1] BoU website, 11 March 2019, authors' emphasis.
[2] Interview with senior BoU official, 12 March 2019.

closely engaged in a battle with the Government of Uganda over its concerns with rising levels of debt and fiscal indiscipline (concerns that have led the IMF to refuse to sign a new Policy Support Instrument for the country since 2016), the Fund issued a strong vote of confidence in BoU in April 2019, emphasising BoU's critical role in Uganda's economic 'success story' (IMF, 2019). This move to shore-up confidence in not just the BoU but also the neoliberal model of development that it represents and that it has done so much to promote, is in turn increasingly contested by some parts of government and civil society.

This paper traces the ups and downs of the BoU's performance as arguably Uganda's first pocket of effectiveness from 1993 until early 2019. We argue that BoU's performance trajectory has been primarily shaped by the dynamics of its transnationalised political settlement: the shift towards a vulnerable-populist mode of governance over the 2000s eventually wore down this erstwhile pocket of effectiveness, although this has played out somewhat differently in relation to price and financial stability respectively. Our account synthesises objective performance data drawn from official sources (see Section 3) with qualitative insights from around 40 key informant interviews with senior BoU staff and other experts in government, the private sector and the donor community who work closely with the institution. Most of these interviews were carried out between March and May 2019, although some were undertaken over a longer period from 2016 onwards. We focus on BoU's effectiveness at maintaining both price stability and financial stability: these are its two most significant mandates, and so it is appropriate to focus our assessment accordingly. However, this does not imply that we agree that the central bank *should* have been tasked with achieving particular targets in these two regards, and we also give critical consideration to the role of BoU in steering Uganda's broader development trajectory in a particular neoliberal direction.

The paper is structured as follows. Section 2 briefly locates BoU within the wider politics of economic development in Uganda and summarises the Bank's history, mandate and governance structure. Sections 3 and 4 evaluate the BoU's performance trajectory over time, using both objective performance indicators and in-depth qualitative accounts of its record on maintaining price and financial stability respectively. Section 5 analyses BoU's performance trajectory over time in relation to the conceptual framework established for this project (Hickey 2019), which highlights the role of the dominant incentives and ideas generated by the political settlement; organisational-level issues that include issues of leadership, governance, organisational culture, mandate and different types of policy challenges; and international support. Section 6 concludes with reference to BoU's broader impact on Uganda's development trajectory.

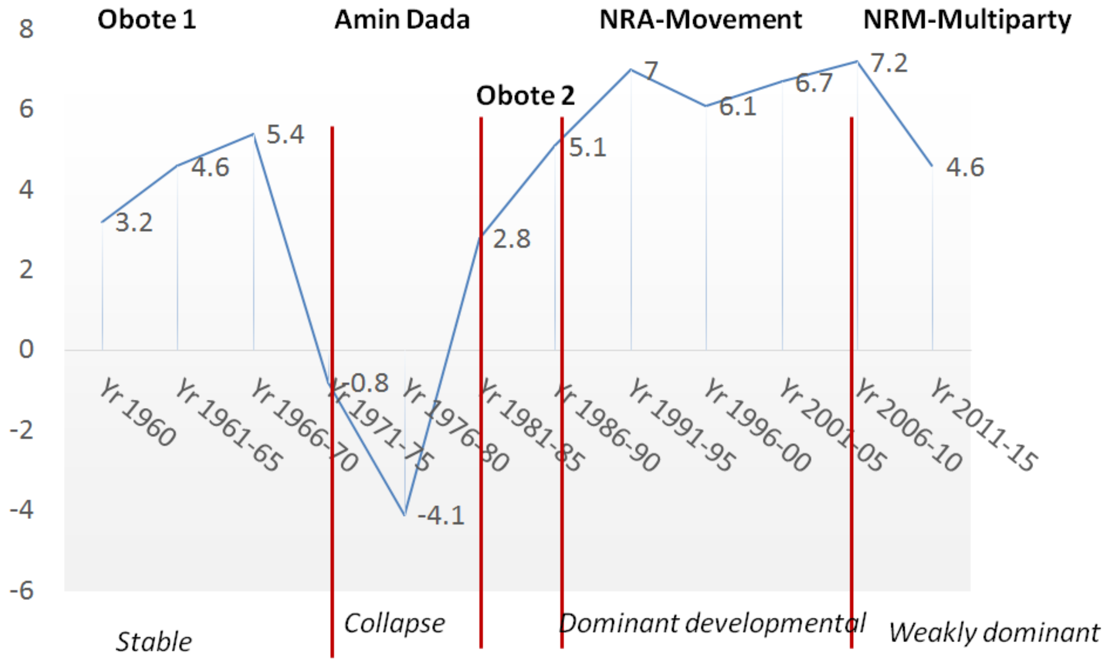
2. BoU and the politics of economic development in Uganda: An historical perspective

The trajectory of economic development in Uganda has been profoundly shaped by the changing nature of its political settlement since independence. After the civil strife of the 1970s and 1980s led to the virtual collapse of the economy, it was not until Yoweri Museveni's National Resistance Movement (NRM) took power in 1986 and started to impose order through a mixture of inclusive coalition-building (Lindemann 2011) and the armed defeat of most insurgent groups (Golooba-Mutebi 2008) that economic stability and then growth returned. Uganda managed an impressive average of 7 percent GDP growth per capita for the two decades leading to 2011, although this then declined to an average of 4 percent per year until 2018[3] (see Figure One). The initial recovery and growth acceleration under the NRM has been credited to the capacity of a dominant ruling coalition to undertake difficult reforms (van Donge and Djkstra 2001) in line with political settlements theory (Khan 2010). Similarly, the slow-down from 2011 onwards needs to be understood in relation to the ruling coalition's increased vulnerability over the 2000s to both electoral challenges from opposition factions and growing factional demands from within the ruling coalition (Bukenya and Hickey 2018). As argued elsewhere (Bukenya and Hickey 2019), one of the key transmission mechanisms between these changing political settlement dynamics and Uganda's uneven economic record over the past decade concerned the autonomy granted to the country's highly capable economic technocracy, particularly within the treasury and central bank.[4]

[3] The calculation of GDP has not been consistent between 2000 and 2018. Different methodologies for estimating output and different weights for each sector were used by UBOS for the period 1998/99 to 2009/10 and from 2008/09 to 2018/19. Depending on how the data is interpreted, Uganda's GDP may have fallen from around 6 percent in the 2000s to around 5 percent thereafter.

[4] For a more in-depth examination of economic development and the political settlement in Uganda see Golooba-Mutebi and Hickey (2013), Kjaer (2015), Whitfield et al. (2015).

Figure 1: Political settlement and growth in Uganda (1960-2015)



Source: Bukenya and Hickey (2018).

The Bank of Uganda was established in 1966, with strong technical and financial support from its erstwhile colonial master: "the main architect of the BoU Act was a British official, seconded from the BoE, who also served as the deputy governor of the BoU" (Dafe 2015: 50). Uganda accepted the British insistence that BoU should focus primarily on price stability, but Uganda was also determined to use it to finance its strategy of promoting African traders vis-à-vis British and Asian entrepreneurs and manufacturers through subsidised credit via the state-owned Uganda Commercial Bank (Dafe 2015: 50). However, BoU soon became "a mere service department for the government" (Mutibwa, 2006: 260), with detrimental implications for its role in ensuring price stability. Under Idi Amin, the BoU Act was amended to increase the amount that government could borrow and "From 1973 onwards, the government regularly exceeded the statutory limits of government borrowing from the BoU that were set at 18 percent of recurrent revenues in the BoU Act" (Dafe 2015: 52). Despite this, staff were still always paid well and on time and could be characterised as "a special aristocracy unlike any other organization in the country" (Suruma 2014: 47). BoU had very little influence over the banking sector during this period – which was weak and dominated by foreign ownership (Brownbridge 1998) – and had no capacity to supervise them.

BoU was formed amidst the onset of the 1966-67 constitutional crisis and civil conflict between government troops and the Baganda kingdom that threatened the very idea of Uganda and established a central role for the military in Uganda's politics (Golooba-Mutebi 2008: 9). This helped to set in play "The dialectic between militarized politics and structural adjustment through fiscal adjustment" (Mazrui 1991: 274), which would see the central bank's autonomy repeatedly undermined.[5] Amin allegedly ordered the murder of the central bank governor in 1972 when he refused Amin's order to print money (op. cit.) and militarised politics would return to haunt BoU's autonomy in the late 2000s (see Section 5). Only when the rhetoric of 'fiscal discipline as military discipline' was deployed in 1992 was a more positive synergy between the economic and militaristic logics of state-building established.

When the NRM came to power in 1986, the initial effort to run the economy along socialist principles and Museveni's reluctance to rein in government expenditure in pursuit of the NRM's ambitious Ten-Point Plan heralded more of the same for BoU. By 1991-1992, excessive government expenditure had converged with structural weaknesses to generate a fiscal crisis. Pressure from international financial institutions and also some leading bureaucrats helped generate a change of direction, with the conversion to market principles writ large in the intellectual trajectory of the technocrat who would become central to Uganda's economic recovery and course over the ensuing three decades. A doctoral student at Dar es Salaam, Emmanuel Tumusiime Mutebile was a Marxist economist before his role within government confronted him with 'realities' that transformed his thinking.[6] The fiscal crisis in early 1992 enabled Mutebile to persuade the president to enforce fiscal discipline via a cash budget by invoking an analogy between fiscal indiscipline and military indiscipline (Mutebile 2010: 42). According to one BoU official at the time, this move not only ended price rises within three months but also established "BoU autonomy on inflation and supervision" and "Accelerated the shift to market-based policies".[7] Presidential support for the economic technocracy was critical here: '…it soon became clear that MoFEP had the president's full authority to do whatever was necessary to control inflation. The economic technocrats had taken over' (Mutebile 2010: 42). During the early 1990s, Mutebile played a central role in re-orientating the direction of both economic policy and state-bureaucratic relations within Uganda (Kuteesa et al. 2010), first as Permanent Secretary at the Ministry of Planning (1987-1992) and the newly merged Ministry of Finance, Planning and Economic Development (1993-2001), before being appointed governor of the Bank of Uganda in 2001, a position he holds to date.

Since gaining autonomy from the president in 1993, BoU has been mandated as the guardian of price and financial stability in Uganda. Its legal status and obligations have been further codified in articles 161 and 162 of the 1995 Constitution, which state that '… the BOU shall conform to the Constitution but shall not be subject to the control of any person or authority'. Later, the revised BoU Act of 2000, the Financial Institutions Act of 2004 and Public Financial Management Act of 2015 formally consolidated the Bank's autonomy. The governor and deputy governor of BoU are appointed by the president, with decisions then ratified in parliament. BoU's management reports to a board of directors, which is chaired by the g overnor, who is indirectly accountable to parliament via the Ministry of Finance. The permanent secretary of finance also sits on BoU's board. The overriding significance of price and financial stability to BoU's mandate is reflected in the fact that the two directorates responsible for these

[5] This dialectic reflects a broader trend, as with the Bank of England bankrolling of military adventurism from the late 17th century onwards (Kynaston 2017).
[6] Interview, 13 March 2019.
[7] Interview, 12 March 2019.

functions, namely Research and Policy, and Supervision, fall under the direct oversight of the governor whilst the remaining seven directorates are overseen by the deputy.[8] The next section examines BoU's performance in relation to these mandates.

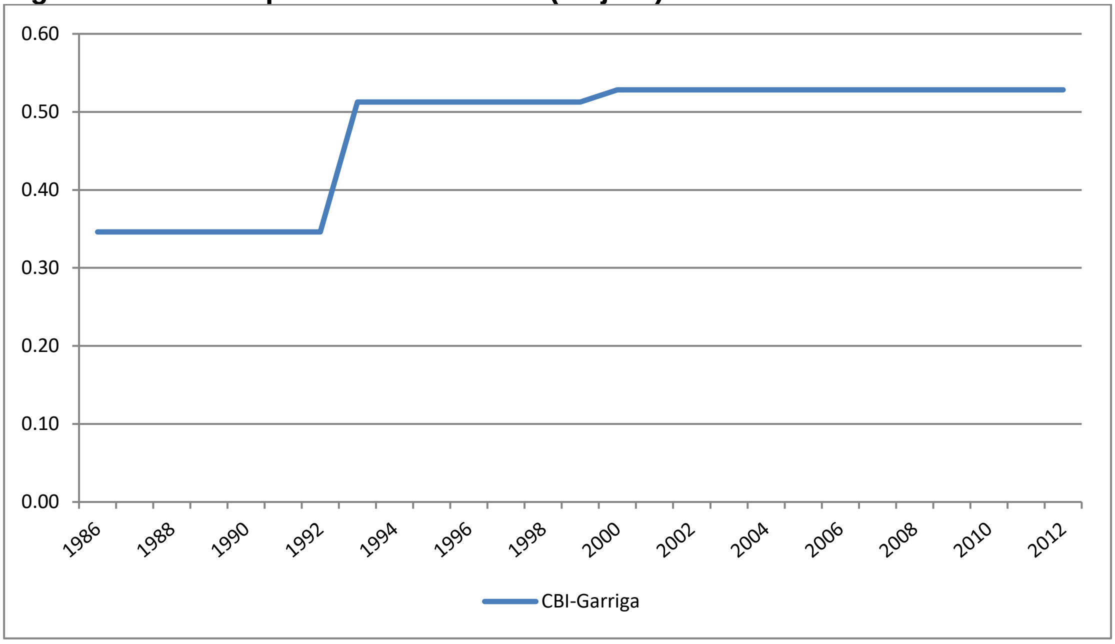
3. The BoU and the politics of maintaining price stability: 1986-2018

In this and the following section, we use a series of objective performance indicators on overall autonomy and also specific measures of price and financial stability to identify performance periods for BoU over time. We recognise that there are problems in drawing causal linkages between BoU performance and some of the indicators used here. For example, price stability flows from the fiscal discipline exerted by the treasury as well as a central bank's capacity to make and implement sound monetary policy. Nonetheless, price stability over time is recognised as a standard indicator of central bank performance by most observers. Data on financial stability and specific indicators of financial soundness are also somewhat problematic in that they may reflect more directly the quality of private bank governance and management rather than the quality of the regulator's supervision of the banking sector per se. For example, the problems leading a private bank to fail may have built up over a long period of time and/or been hidden from the regulator. However, identifying levels of financial stability and soundness over time helps suggest how well a banking sector is being regulated and examining patterns in the data over time in relation to important events such as bank closures and how these are handled by the regulator can be particularly instructive. As such, and in the absence of other performance indexes to rely on, some important patterns emerge that can, in the sections that follow, be effectively triangulated with qualitative insights from key informants and in-depth investigations of critical cases regarding both price and financial stability. These two sections move beyond an effort to identify performance periods to trace BoU's performance trajectory in relation to the drivers of price and financial stability respectively, with particular reference to Uganda's shifting political settlement dynamics over the past decade.

The autonomy of public organisations has both de jure and de facto dimensions, which flow respectively from legal provisions and whether these are respected in practice. According to the former, BoU has enjoyed significantly enhanced levels of autonomy since the 1993 reforms (Figure 2). However, an index that tracks 'de facto' autonomy identifies a decline from the late 2000s, with a particular low point in 2011 followed by a (partial) recovery (Figure 3).

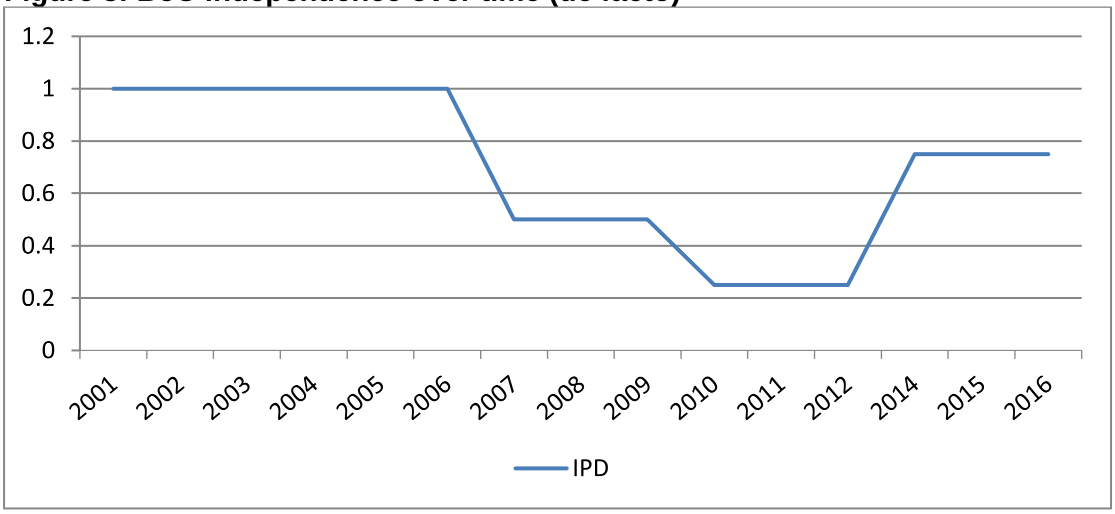
[8] The other seven directorates are the Governor's Office, Administration, Bank Secretariat, Finance, Operations, Internal Audit and Information Technology.

Figure 2: BoU independence over time (de jure)



Source: Garriga (2016). Central Bank Independence in the World: A New Dataset.

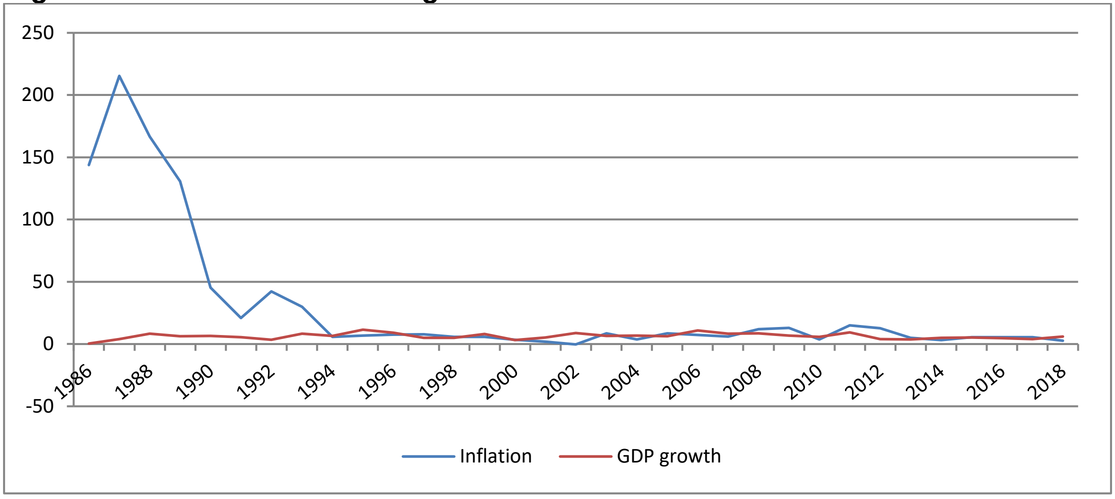
Figure 3: BoU independence over time (de facto)



Source: Institutional Profiles Databases (www.cepii.fr/institutions/EN/ipd.asp).

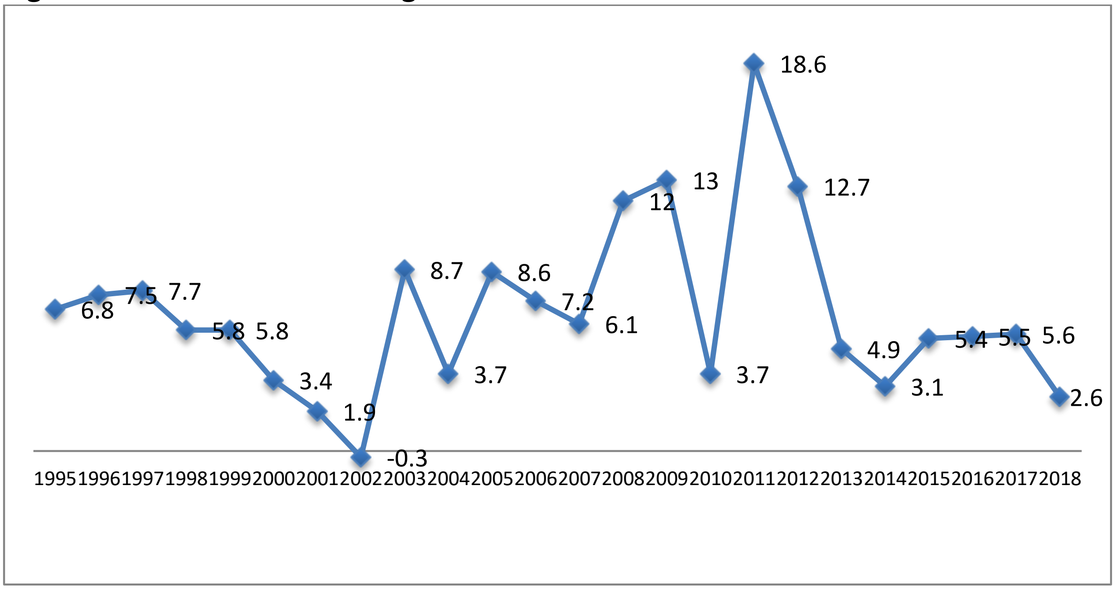
This pattern in relation to autonomy broadly tracks Uganda's performance in relation to price stability: performance improves significantly from the early 1990s onwards, only to dip significantly in the late 2000s, with particularly high levels of inflation in 2011, followed again by a recovery (Figures 4 and 5). As we discuss in below, whereas the smaller spikes in the early and late 2000s were caused mainly by oil price rises and a mixture of food prices and drought respectively, the much larger spike in 2011 was a direct result of political interference related to the 2011 presidential campaigns, and cannot be fully explained by other inflationary pressures at the time, including from higher food prices, rapid credit growth and exchange rate depreciation.

Figure 4: Rate of inflation in Uganda 1986-2018



Source: World Governance Indicators.

Figure 5: Rate of inflation in Uganda 1995-2019



Source: IMF financial statistics and data files.

A mixture of quantitative data on inflation and our qualitative research suggests the BoU has undergone four main performance periods since 1986 in relation to price stability: relatively poor performance between 1986 and 1992; a period of reform and good performance from 1992 to 2009; a period of capture and failure during 2010-2012; and then a period of recovery (2013 to date).

1986-1992: The stormy early days

The NRM government inherited high rates of inflation when it came to power in 1986 and although inflation in Uganda is certainly a seasonal phenomenon with regards to food production and prices, fiscal indiscipline has also been a key driver. According to the deputy governor of BoU at the time, the central bank freely released funds to ministries following requests based on revenue predictions rather than actual revenue (Suruma 2014).[9] Borrowing from BoU contributed to 'skyrocketing levels of inflation' (Dafe 2017: 8), which averaged 191 percent per annum between 1986-1989. During this period (as before) the BoU had lacked the independence to rein in this tendency and price stability was not considered to be central to its mandate. International actors played an ambiguous role here: on the one hand donors had just returned to Uganda and international finance institutions (IFIs) did not impose sanctions on government for failure to reform in this area (Dafe 2017: 9) and the unpredictability of aid flows contributed to macroeconomic instability (Byaruhanga et al. 2010). However, it is clear that the policy advice and technical support offered by international development agencies during the early 1990s did help catalyse and shape the subsequent era of major reform.

1992-2009: 'Inflation is indiscipline': The reform period

> Respect for mandate: 1992 was the turning point for this country, even the president came out very strongly, this is the direction to take and ready to defend in the Constitution-making process.[10]
>
> The BoU became very effective in pursuing this mandate: Inflation rates between 1995 and 2005 averaged 4.9%, which is both below the self-set target and below the African average of 6.5% during the same time period World Bank (2013c).[11]

Shifting BoU from its role as 'a printing press for government'[12] required not just legal reforms but a wider political pact, a new leadership team, new organisational practices and cooperation with MFPED to control government borrowing. Following the fiscal crisis of 1992, when inflation spiralled out of control (Byahuranga et al. 2010),

> government set a point target for inflation at 5 percent (lower than other African countries at the time), delegated authority for monetary policy to the BoU and set the achievement of economic stability as the ultimate objective of monetary policy (Dafe 2017: 9).

Museveni strongly supported the effort to establish controls over inflation, budgetary expenditure and macro-economic management, enabling the Ministry of Finance to enforce fiscal discipline through a monthly cash budget (Mutebile, 2010: 42). The Financial Sector Adjustment Program, agreed with the IFIs in 1993, reoriented financial policy from financial expansion towards stability, with the BoU liberalising interest rates and tightening prudential regulation (Dafe 2017: 9).

---

[9] Suruma was deputy governor and director of research at BoU, also advisor to Minister of Finance Kiyonga, from 1987 to the early 1990s.
[10] Interview with leading BoU official, 12 March 2019.
[11] Dafe (2015: 59).
[12] Interview with MUBS economist, 15 March 2019.

Improved coordination between BoU and MFPED was critical during this period (Dafe 2015: 58-9), including the establishment of a joint committee on monetary policy.[13] The merger of the ministries of finance and planning meant that economists were now in charge of the budget and the influential Mutebile was able to exert fiscal discipline as Secretary to the Treasury. When Mutebile was appointed BoU governor in 2001 his main challenge was to consolidate the earlier reforms. Mutebile took a hardline both in terms of preserving BoU autonomy and policy continuity, insisting on price stability, creating conditions for private investment and reducing public expenditure (Whitworth and Williamson 2010). According to one official who worked at BoU throughout the 1990s and 2000s:

> He has competent staff, they do proper analysis and they advise him; personality-wise he can be very decisive, once he is convinced, at one time his voice would move the market. He will say no including to the president, his conviction in the private sector and the free market, he has stood by his ideology he hasn't wavered, hasn't changed.[14]

By the early 2000s, Uganda had experienced a decade of high growth rates, and monetary policy began to be adjusted accordingly in line with both changing economic conditions and increased capacity within BoU (eg, more reliable and timely macroeconomic data through an improved monetary survey). This enabled more conventional aspects of monetary policy than fiscal adjustments, including the sale of government securities and foreign exchange (Byaruhanga et al. 2010: 85). The Monetary Policy Committee met regularly to examine the economy's fundamentals and BoU and MFPED officials also established an informal Friday meeting to discuss the macroeconomic situation and potential responses. The Research and Policy directorate was critical here, particularly in terms of its insistence that all decision-making on monetary policy was evidence-based.[15] Research is generally considered to be BoU's highest-performing directorate and several executive directors of research have gone on to become deputy governors; this includes the current incumbent, Louis Kasekende, who is credited with building the directorate in the 1990s.[16]

However, BoU's neoliberal position and its combined hegemony with MFPED over economic policy making was increasingly tested from the mid-2000s, when Uganda's political economy shifted following the discovery of oil, hugely increased levels of investment from China and the declining significance of international aid and traditional donor advice. These factors combined to inspire a more ambitious development agenda amongst the political elite and the president in particular (Hickey 2013). A move that saw BoU entering public disagreements with some parts of government over the extent of government expenditure, including the newly empowered National Planning Authority. The early 2000s also saw isolated incidents of political interference in the BoU's functions, notably the political pressure on BoU to approve a Shs 21 billion

[13] Interview with leading BoU official, 12 March 2019.
[14] Interview, 9 November 2017.
[15] Interview with ex-BoU official, 9 November 2017.
[16] Interview with ex-BoU official, 9 November 2017.

bailout for businessman Mr Bassajjabalaba in 2004. Combined with the president's perceived need to increase government expenditure in order to maintain himself in power, the deal over fiscal discipline between the president, the economic technocracy and the IFIs began to unravel.

2010-2018: Capture, decline and fightback

The signs that economic governance in Uganda had become increasingly lax were already apparent by the late 2000s, particularly in terms of rising levels of supplementary budgets, political interference with the leadership of MFPED and problems of corruption within MFPED (Bukenya and Hickey 2019). According to one ex-MFPED official who was working in the Ministry at the time,

> That is when we knew things had changed. It was always the case in election year. When he was withdrawing from taking care of the economy, he asked us 'why can't you let inflation go above 5 percent'?[17]

However, it was only in 2010 that it became clear how far the president was now willing to go in undermining the BoU's capacity to deliver fully on its mandate for maintaining price stability. A series of moves by the president would see inflation spiralling out of control for the first time since 1992. This involved not only a massive increase in public expenditures in the run-up to the 2011 elections but also pressure on the Bank to increase the amount of money in the economy as a means of informally funding the incumbent's election campaign. This incident coincided with two other episodes of political interference, involving the apparent complicity of the BoU governor in authorising an excessive compensatory payment to a politically-connected businessman and the purchase of six Russian fighter jets.[18] By the end of the 2000s, then, BoU was no longer being protected as an 'island of effectiveness' in Uganda's sea of patronage, but used instead as a conduit through which Uganda's increasingly militarised and populist politics of patronage could be maintained and deepened. The following sub-sections describe both how this crisis arose and the response that the BoU made to reclaim its autonomy in the run-up to the 2016 election.

BoU learns from the 2011 elections and the price stability crisis

> At policy level there is a commitment to keep inflation low. However, it was much easier then when the president was on board – it is much harder now today. You can't cut the budget, the president would not agree to that – whereas price stability was widely shared in the 1990s across government it is not something that is so appreciated now across cabinet and parliament and even the president himself. He is not as committed as he was in the 1990s with regards to fiscal prudence, which also impacts on growth.[19]

[17] Ex-senior officer within the Budget Department, 9 November 2017.
[18] Space precludes a fuller discussion of these cases here.
[19] Senior MFPED advisor, 15 March 2019.

Shaken by the strong challenge mounted by the opposition candidate during the 2006 election campaign, the increasingly vulnerable President Museveni opted to tilt the 2011 presidential election in his favour through huge injections of cash into rural areas (Gooloba-Mutebi and Hickey 2016, Izama and Wilkersen 2011, Logan et al. 2011). Most attention at the time was focused on the steep rise in supplementary budgeting, with large amounts of money allocated to parts of government closely associated with the presidential campaign (Bukenya and Hickey 2019). However, the extent of BoU's role became clear in 2014 when the governor wrote a media piece denying that BoU had 'printed money' but admitting that 'the central bank had sold so many Treasury bills to create cash for the government in the run-up to the elections, he could not determine how much of the money "ended up in political electioneering"' (*The East African*, 2014),[20] amidst rumours that it had also reissued old 50,000 Shilling notes. As one ex-advisor to the Minister of Finance noted:

> Even if it was old bills, it is still new money that is a deviation from planned money supply route. So it is printing money in a sense. It was through a direct demand from Treasury but we have no idea with what justification or what this was spent on. Very hidden. Electoral costs were going through the roof – you have no idea, but none of them are going to cause growth – not transparent and classified. Not on goods and services, so inflationary.[21]

A similar view comes from a senior BoU official in post at the time:

> … the law was not broken; it was not illegal, just a very loose fiscal stance; you are printing money and taking it to buy notes, that is inflationary by all means. It was the use of the borrowing…. if it has been used to construct a road, but if you print and you are distributing at rallies that is just a demand pressure. Economy was already overheating – that was the inflation we saw.[22]

Inflation rose to an average of nearly 19 percent over 2011, with a peak of 30.5 percent. This spike was not entirely driven by the electoral cycle; there had at the same time been a rise in food prices, a sharp depreciation of the exchange rate, by 38 percent between late 2009 and June 2011 and a rapid growth in bank credit, which grew by 44 percent in 2010/11 compared to an annual average of 30 percent in the prior five years. In addition, the $700 million taken from government reserves to purchase six Russian fighter jets in 2011 meant that the BoU had less foreign reserves to dampen the exchange rate depreciation. Nonetheless, this was the first time since 1992 that inflation had reached double figures for reasons that could not be explained by economic factors alone (see Figure 3).[23] Indeed, a report commissioned by the

[20] www.theeastafrican.co.ke/tea/news/east-africa/mutebile-lifts-the-lid-on-patronage-and-electoral-financing-in-uganda--1329910
[21] Interview, 15 March 2019.
[22] Interview, 12 March 2019.
[23] The smaller spikes in inflation in 2003 and 2008 were due to oil price rises and a mixture of drought and food price rises, respectively.

European Union to examine the causes of the spike in 2011 found that it could not be fully accounted for by other prevailing economic factors at the time.

The economic costs of this electoral strategy were felt particularly strongly in Kampala, helping to inspire the popular walk-to-work protests in 2011-12, which shook the Museveni government badly (Branch and Mampilly 2015). Facing a political as well as an economic crisis, government responded rapidly with strong support from the president. This included a severe tightening of monetary policy and operational reforms both within BoU and in terms of much closer working relations between BoU and MFPED. UBOS rebased the GDP data from 2008/09, and this gave a greater weight in GDP to a slow growing sector – agriculture – and a smaller weight to a fast-growing sector – construction. The government placed new constraints on government borrowing through the public financial management act, the main monetary policy instrument deployed, which was 'to push interest rates to the maximum'.[24] The BoU raised the Central Bank Rate rate to 23 percent in November 2011, and private banks raised their interest rates to 30 percent. Several months earlier, in July 2011, the BoU also decided to adopt 'inflation targeting', a move that the IMF lobbied hard against until the new framework's success in controlling inflation persuaded them otherwise.

Inflation was reduced to single figures by the end of 2012 (EU 2016, interview with senior BoU officials) albeit at a cost to economic activity; growth rates fell to 3.2 percent rates over 2011-12 and have since averaged only c4.1 percent pa, as compared to an average of over eight per cent between 2000-2007/8. While the GDP data for the 2000-12 period is not based on a consistent methodology, growth is estimated to have slowed from at least 6 percent in the 2000s to around 5 percent after 2010. The high cost of borrowing made life extremely difficult for traders in particular and led to public investments being delayed. Senior IFI officials noted that, 'They maybe over did it in the early stages, so there was some cost in terms of output, too aggressive'.[25] More heterodox economists have gone further, arguing that, 'inflation is a symptom of structural problems in the economy, which you need to address through fiscal investments'.[26] From this perspective, BoU's single-minded focus on price stability constrains any shift to an alternative economic policy agenda that emphasises job creation, agricultural productivity and the provision of cheaper credit to smallholders:

> Our view is that monetary policy is stopping fiscal policy from being effective. It has remained tight – money is very expensive, private sector credit is not growing as it should, development finance is more or less absent. Just focusing on inflation in an economy that has structural rigidities, you are treating the symptoms and neglecting the disease.[27]

The 2011 crisis also sparked a series of changes to BoU's operational practices, with efforts to rationalise some committee structures, including the Monetary Policy

[24] Interview with senior BoU official, 12 March 2019.
[25] Interview 13 March 2019.
[26] Interview, 15 March 2019.
[27] Interview with MUBS economist, 15 March 2019.

Committee, and introduce a new focus on 'crisis management'.[28] Relations between BoU and MFPED were tightened, with the governor and minister meeting monthly and technocrats weekly,[29] contributing 'to a much better alignment of fiscal and monetary policy thereafter' (Eberhard-Ruiz 2016, interview with senior BoU officials).

This alignment was written into law in the 2015 Public Financial Management (PFM) Act, a process led by MFPED with close support from BoU. Prior to 2011, the BoU Act allowed government to borrow 18 percent of current tax revenue within a given financial year, repayable within the same financial year. The new PFM Act reduced this to 10 percent. BoU officials 'had wanted 0 percent but MoF again used a 'behind-the-scenes' manoeuvre to support the 10 percent'.[30] Parliamentarians supported a reduction in government borrowing but approved a 10 percent rather than 0 percent limit to allow government more leeway. The BoU had also hoped that the PFM Act would prevent the government from borrowing from the BoU since this involved monetary financing (printing money). This loosening of the PFM's provisions was also apparent around the loosening of rules on supplementary budgeting just before the 2016 election (Bukenya and Hickey 2019).

Intriguingly, BoU also fought a rear-guard effort to regain BoU's autonomy in the run-up to the 2016 election. This included a media and lobbying campaign to try and shore up support for macroeconomic stability amongst the political elite and also to regenerate public support for this and the Bank itself:

> It was very important: we had to be very active in our economic diplomacy – talk to the head of state, talk to ministers to talk to members of committees of parliament to ensure that they understand the policies of the central bank.[31]

The message was very clear: BoU officials stressed to State House and Cabinet that the risks of excessive spending leading to inflation were much higher than in 2011 and could lead to even greater political upheavals. The risk of high inflation due to exchange rate depreciation in 2015 and the expected raised food prices due to El Nino was already alarming BoU officials. BoU and MFPED staff issued joint communiqués directed at both the public and the president.[32] Most importantly, the governor gave a series of interviews to the international and national media to proclaim the need to restore central bank autonomy, a point he stressed further in a speech at a conference of central bankers in Uganda on 11 November 2014. [33]

---

[28] Interviews with BoU leadership staff, 13 March 2019.
[29] Interviews with senior BoU and MFPED officials, 12 and 15 March 2019.
[30] Interview with senior BoU official, 12 March 2019.
[31] Interview with leading BoU official, 15 March 2019.
[32] Interview with senior MFPED advisor, 15 March 2019.
[33] Eg, Issac Imaka and Stephen Otage, "I Was Misled into Funding 2011 Polls, Says Mutebile." (*The Monitor*, 13 November 2014).

A combination of political and technical responses enabled BoU to retain control of macroeconomic stability at the 2016 elections. One senior BoU official notes,

> … once bitten twice shy …. in 2011, the central bank reacted too late … in 2016 it was different, we started tightened monetary policy in 2015. We increased interest rates in second half of 2015, explicitly for elections.[34]

According to one report, 'The new fiscal and monetary frameworks averted a repetition of the 2011 fiscal slippages in the 2015/16 election year, with inflation remaining well within single digits' (Eberhard-Ruiz 2016). The IMF concurred: having removed its support from Uganda in the aftermath of the 2011 debacle, a mission that visited the country just before the 2016 elections with regards to the Policy Support Instrument reported that 'the pressures were not as bad as last time' and that government was managing to curtail politically influenced expenditure.

Although the BoU largely escaped capture, the 2016 elections weighed heavily on the fiscal side and on the real economy, with government freezing expenditure on investment and redirecting public finances to the electoral campaign (ACFIM 2016). Moreover, the benefits of some reforms have been short-lived. Since 2013 there have been persistent breaches of domestic borrowing targets because of overspending on the domestic budget and tax revenue shortfalls and 'Coordination between MFPED and BOU has weakened and letters from the governor to the minister often go unanswered'.[35]

4. BoU's performance on financial stability: The role of banking supervision

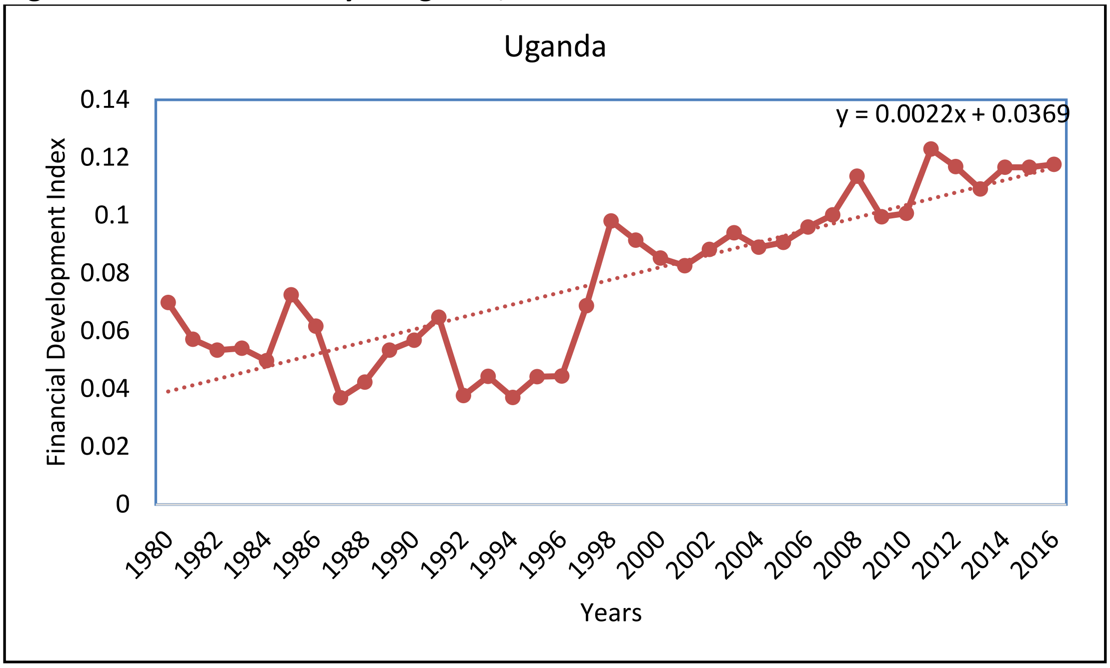
This section examines BoU's role in ensuring financial stability in Uganda, which has involved licensing, monitoring and disciplining financial institutions (BoU 1999: 10). In contrast to BoU's performance on price stability, improvements around building and maintaining financial stability took rather longer to achieve, with figures only improving from the late 1990s followed (again) by a spell of patchy performance from around 2011-12 (Figure 6). A closer look at some indicators of financial soundness shows that the banking sector was operating well within the statutory requirements in the most significant regards, including in terms of the capital adequacy ratio, tier one (capital divided by risk weighted assets) and the liquid asset ratio (Figure 7). Although there seems to be a spike in the level of non-performing loans in the sector towards 2016, it is not clear from this aggregate data to what extent this relates directly to the series of bank closures that took place between 2012 and 2017. The major case of Crane Bank closure has been identified as accounting for around half of the Shs1.2 trillion of non-performing loans in the banking system. However, it seems that none of these closures resulted in any negative systemic effects on the banking system, such as a loss of aggregate liquidity, which could suggest that BoU performed its role effectively in this regard at least. However, as we show in this section, it is necessary to play close

---

[34] Interview 12 March 2019.
[35] Interview, ex-advisor to BoU and MFPED, 22 January 2019.

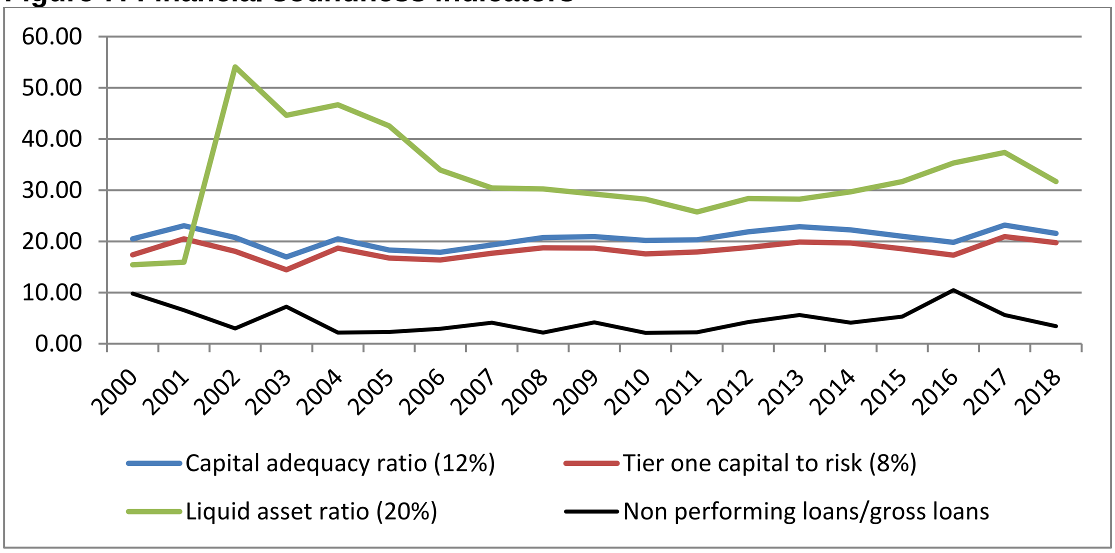
attention to the ways in which central banks handle specific bank closures, which can be highly revealing of both their supervisory capacities and commitment to due process, and potential political interference.

Figure 6: Financial stability in Uganda, 1980-2016



Source: https://data.imf.org/?sk=F8032E80-B36C-43B1-AC26-493C5B1CD33B

Figure 7: Financial soundness indicators



Source: Bank of Uganda.

We identify four main performance periods in relation to financial stability, starting with a period of neglect and poor performance from 1966 to 1992; reform and capacity-building from 1993 to 1998; good performance and further reforms from 1999 to 2010; and a recent period of failure amidst continued reforms from 2011 to date. The data on financial sector stability shows improvements from 1998 onwards (Figure 5), perhaps because BoU learned lessons from three high-profile closures that took place over 1998-1999. However, from around 2010 onwards there is clear evidence that BoU's standards of operation around banking supervision dipped significantly. According to the 2018 parliamentary investigation, staff with BoU's supervisory directorate ignored the excesses of some bank operators and flouted laws and procedures during three bank closures between 2012 and 2016 (COSASE 2018: 20). Although no bank closure since 1993 has had negative effects on the banking system and depositors have always been protected (Figure 6), the costs to the taxpayer have been growing (Table 1). According to the Office of the Auditor General's report (2018), the government was forced to make ex-gratia payments to depositors worth Shs.104 billion with regards the three recent closures and, in the case of Crane Bank, BoU injected Shs.487 billion to pay all depositors and keep the bank afloat ahead of its sale. There is also evidence of a growing failure to resist political interference in BoU's approach to bank closures since 2010.

1966-1991: The era of neglect

During the early post-independence period, Uganda's banking sector was dominated by foreign banks (BoU 1968). The only local banks were Uganda Commercial Bank (UCB, established 1965) and the Cooperative Bank (1972), both of which were expected to fulfil developmental objectives. At this point, BoU had only five departments including exchange control, research, and bank supervision. BoU was also heavily understaffed, despite increasing its number of staff from 70 in 1967 to 145 in 1968. Officials working in the bank in the late 1980s report that the supervision unit was largely sidelined by the bank's leadership, severely understaffed, poorly trained and poorly managed,[36] and a 1991 IMF study found the unit to be one of BoU's weakest. Although officially empowered via the Banking Act 1969, this law also granted the minister of finance the right to grant and revoke licenses and limited BoU's powers, leaving it 'simply toothless'.[37] An IMF mission in 1991 concluded that, 'Unless its authority is strengthened and its capacity to carry out its functions effectively is augmented, BoU cannot effectively carry out the role and functions of a central bank". (IMF, 1991: 3).

1993-1998: The era of reform and capacity-building

By 1993, there were 16 registered banks, of which 11 were Ugandan-owned, but the financial sector remained weak. An IFI Financial Sector Adjustment Credit supported a reform programme that involved: institutional reforms to the BoU and the public sector banks, legislative changes to the banking laws and the BoU Act, and financial liberalisation. This led to the supervision unit within BoU being elevated from a department to directorate level in 1992 and to the Financial Institutions Statute of 1993, which cemented BoU's autonomy in banking supervision (Dafe, 2017). As a result, poorly managed banks that had been overlooked were now targeted for closure, as with Teefe Bank in 1993 (Suruma 2014: 51). Diagnostic studies carried out by Coopers and Lybrand revealed that the two biggest local banks – Uganda Commercial Bank and Cooperative Bank – were technically insolvent and posed a risk to the entire

[36] Interviews, 8 and 9 May 2019.
[37] Ex-BoU official, supervision directorate, 8 May 2019.

system, revealing how weakly BoU had hitherto been playing its supervision role. The reforms took time to bed in and several weak banks were permitted to continue until a further round of closures in 1998-1999 (see Table 1).[38]

At least two of the banks had been subject to political influence. Regarding International Credit Bank (ICB), an official commission criticised BoU's decision to allow ICB to guarantee the 1997 purchase of military helicopters from Belarus at the equivalent of 1,600 percent of ICB's core capital.[39] The head of supervision at the time admitted that the defence secretary had exerted pressure on then BoU governor and executive director, supervision:[40]

> The banks that initially collapsed had in part to do with the character, competence, power and influence of those in charge of supervision. When a new EDS was appointed in the late 1990s many glaring weaknesses within the banks were exposed.[41]

For one official, 'Supervisors lacked experience. They were few in number. Legislation was inadequate, and the people running banks knew this and took advantage.'[42] This concurs with Dafe's (2015: 63) analysis that 'The BoU's limited authority and capacity to regulate and supervise banks was a key reason for the banking crisis Uganda experienced in 1997/1998'. BoU was initially reluctant to close these banks. In the case of Greenland Bank, the closure was accused of being politically motivated and the owner of the Bank had been the BoU governor who would have been able to influence the decision (*Nile Post*, 2019[43]). However, the banks were eventually closed under pressure from the minister of finance (Table 1).

2000-2012: The era of strong performance

The bank closures of the late 1990s catalysed a new round of reforms and lesson-learning, which helped BoU to improve its supervision of banks and achieve higher levels of financial stability. The revised Bank of Uganda Act in 2000 strengthened BoU's powers over all financial institutions (BoU 2002: 6) whilst the 2004 Financial Institutions Act saw BoU adopt international best practice as set out in the Basel core principles. This is the period when the financial system appeared most sound: by December 2001, all the 17 registered commercial banks were solvent (BoU 2001), a number that rose to 24 by 2012 (BoU 2012). During this period all commercial banks were able to comply with tighter rules on the minimum capital requirement (BoU 2012).

---

[38] Osike, F. (1999, 16 November). Uganda: Government Appoints Judges For Bank Probe. *New Vision*. The commission was comprised of Justices James Ogoola, the chairman, Japheth Katto, and Justice David Porter.
[39] *New Vision* (2001, 27 March), Bank Probe Report Pins Down Owners.
[40] *New Vision* (2001, 14 May), BOU staff plotted with ICB, says Ssebutinde. This case offers an interesting parallel to the 2011 case when BoU was forced to draw from some $700 million from the government reserves to buy Russian-made Sukhoi fighter jets.
[41] Mid-level manager in BoU supervision directorate, 9 May 2019.
[42] Ex-director BoU supervision directorate, 16 April 2019.
[43] https://nilepost.co.ug/2019/02/13/flashback-dr-kiggundus-court-testimony-on-the-closure-of-greenland-bank/

Financial Soundness indicators reveal that, from 2005 onwards, the banking sector was relatively free from financial distress, with the actual ratios of both solvency and liquidity for the banking system above the regulatory minimum by a substantial margin in every quarter (Figure 7).

This recovery was helped by changes within the central bank. The supervision department was restructured and a new executive director appointed. Katimbo Mugwanya had worked with Deloitte in the UK before joining BoU and had also been BoU's chief accountant. Supervision improved significantly under new leadership: an IMF (2005) assessment noted, 'substantial improvements to banking supervision' during this period, and staff report that 'Katimbo came with new thinking. He introduced most of the new reforms that grew the directorate and made it mainstream in BoU operations'. [44] In 2005, a new leader was appointed in a move that seemed designed to ensure continuity: Justine Bagyenda was 'a good student of Katimbo. She worked hard to maintain the standards'. [45] One official who worked under her said that Bagyenda was driven by a desire to make the directorate the most powerful entity at BoU.[46] Bagyenda became renowned as 'the iron lady' of the banking sector:

> She was so tough on Bank executives that one time when I went to request someone to head a board of a bank, the person declined saying he could not take that kind of treatment. He likened the sessions between Bagyenda and bank executives to that of a head teacher and primary school teachers. People would enter meetings so terrified.[47]

A current BoU official who used to work in the private banking sector, concurs: 'They were very brutal. They would know if you had stepped out of line … they would not hesitate to fine you'." [48]

2012 to date: The period of decline

On the surface, this high-level commitment to banking supervision seemed to be continuing into the 2010s, despite some capacity gaps (according to the World Bank Regulation and Supervision Survey database, Uganda had 79 supervisors in 2012, of whom 29 had over 10 years of experience and 30 had a postgraduate degree). Aggregate levels of financial stability remained sound and by 2012 the banking sector was growing positively (BoU 2012). A joint IFI assessment of Uganda's compliance with Basel showed that Uganda was either fully or largely compliant with 22 of the 30 core principles of bank supervision and regulation (BoU 2012). However, in 2012 and 2014, BoU closed two banks, respectively the National Bank of Commerce (NBC) and Global Trust Bank (GTB), on the grounds of their being undercapitalised, having a record of persistent losses and being characterised by corporate governance weaknesses. Official investigations by the Office of the Auditor General and the

[44] Ex-director BoU supervision directorate, 16 April 2019.
[45] Ex-director BoU supervision directorate.
[46] Interview, 16 April 2019.
[47] Interview with ex-commercial bank secretary, 8 February 2019.
[48] Interview, 13 March 2019.

parliamentary committee on Commissions, Statutory Authorities and State Enterprises (COSASE) in 2018 concluded that the manner in which BoU officials in the supervision directorate closed these banks had violated the Financial Institutions Act (FIA) 2004 (COSASE, 2019).

Many observers claimed at the time that the closure of NBC had more to do with political interference than under-capitalisation: by BoU's own calculations, NBC capital stood at more than 97 percent of the minimum threshold of UGX 10 billion, although this is contested by other BoU officials at the time.[49] The bank's founders included BoU Governor Mutebile and Amama Mbabazi, a leading NRM politician who was prime minister from 2011 to 2014. President Museveni had written to Mutebile earlier in 2012 asking him to investigate claims that Mbabazi was using the bank to build a financial war chest to challenge Museveni in the 2016 elections.[50] Mutebile wrote back saying the claims were false. When BoU closed the Bank anyway, the suspicion from some was that it resulted from presidential pressure. Shareholders of GTB also claim that they were not given enough time to recapitalise their bank before BoU closed it in 2014, whereas at least one senior BoU advisor continues to argue that NBC had already lost its viability (pers. comm.). A later investigation would reveal that BoU sold the bank the same day it took it over, in violation of Section 89(3) the FIA, 2004 (OAG 2018, COSASE 2019). Still more controversial was the closure of a third bank during this period, namely Crane Bank Limited, which we examine in more detail here.

The closure of Crane Bank

Until late 2016, Crane Bank Limited (CBL) was the third biggest bank in Uganda and the largest owned by a Ugandan. The owner, Sudhir Ruparelia, was renowned as the richest man in Uganda and for having been a strong financial supporter of the NRM government. The BoU took over management of Crane Bank on October 20 2016, on the grounds that it was significantly undercapitalized, posed a systemic risk to the stability of the financial system and that allowing it to continue would be detrimental to the interests of its depositors.[51] However, the BoU's handling of the closure catalysed a series of investigations from mid-2018, including one by the Auditor General into all bank closures since 1993 and a parliamentary investigation by the Committee on Commissions, Statutory Authorities and State Enterprises (COSASE). In late 2018, the president ordered a further secret investigation into internal BoU processes, led by COSASE, the Inspector General of Government and the Financial Intelligence Authority. The main findings of these investigations and our own interview material reveal significant flaws in the quality of BoU's leadership and governance that have undermined its reputation as the country's premier pocket of effectiveness.

According to forensic investigation report on Crane Bank by PWC in December 2016, Sudhir had stolen $80 million from his own bank over many years, concealed his 100 percent ownership of Crane Bank by introducing fake shareholders and fraudulently

---

49 Statement of NBC shareholders before COSASE (2018).
50 Mwenda, A. (2013, 6 December). Battle for 2016. *The Independent.*
51 BoU's statement on the closure of Crane Bank.

shifted ownership of the 48 branches of Crane Bank to another company he owned called Meera Investments in 2013.[52] According to an ex-BoU advisor, immediately prior to BoU taking over Crane Bank at the end of September 2016, CBL's liquid asset to deposit ratio was 21 percent, which was marginally above the statutory minimum of 20 percent but compared badly to the industry average of 45 percent in that quarter. At a meeting between Sudhir, leading BoU officials and the attorney general at State House on 6 July 2017, Museveni asked both sides to find an amicable solution,[53] and instructed that Sudhir could only be pursued with a civil case. The president was keen to have the case resolved out of court to avoid sending a negative signal to investors and antagonising a major financier of the ruling party.[54] However, this deal soon collapsed due to mistrust between Sudhir and BoU, with the latter eventually persuading the president that CBL had to be closed and its owner prosecuted.[55] The Bank was closed in January 2017 and several months later, BoU prosecuted Sudhir on behalf of the bank's creditors.

The formal process through which BoU closed CBL and transferred its assets and liabilities to dcfu, one of its competitors, has been found to be marred with irregularities. Having moved more slowly than required to appoint auditors to value CBL assets, the executive director of Supervision granted dfcu Bank alone access to evaluate CBL assets from 30 November 2016, before the auditors had presented their results. BoU then invited bids for CBL assets on 9 December 2016, with dfcu submitting a bid on 20 December 2016. Yet the inventory report, prepared by PricewaterhouseCoopers on behalf of BoU, was not produced until 13 January 2017. This was in contravention of Section 95 (3) (a) and (b) of the FIA 2004, which requires the report to be produced before potential purchasers evaluate the assets and submit a bid.[56] BoU also failed to exercise due diligence in its handling of CBL's 'bad book' (fully provisioned for and written off loans). In brief, dfcu only assumed liability to the extent of Shs. 200 bn, whereas the outstanding liability owed to BoU by CBL was Shs. 478 bn. This, in the opinion of COSASE, resulted in a financial disadvantage to both BoU and CBL. While from BoU's perspective, this may have been as good a deal as could be expected given the difficulty facing liquidators in recovering value from bad loans, the dfcu management was reported to have told shareholders that it was the best deal they had made in years. Indeed, within months of acquiring Crane Bank assets, dfcu reported

---

[52] PWC (2016). Project Nyonyi: Report on the Preliminary Forensic Review at Crane Bank Report.

[53] Matsiko, H. (2017, 29 August). 'Sudhir, BoU fallout: An inside account of the politics behind the tycoon's troubles'. *The Independent.*

[54] The president had been critical of Sudhir's extension of political finance to the opposition FDC party in 2006, and there were rumours that this hedging happened again at the 2016 elections.

[55] We can suggest two possible explanations for the president's decision to approve action against such a financially important supporter of the government. The first is the rumour that Sudhir also backed opposition candidates in the 2016 poll, which annoyed Museveni; the second is that Museveni still trusts some of his bureaucrats, in part at least.

[56] COSASE also found that some of the non-disclosure agreements revealed that the Central Bank was disclosing confidential information of distressed financial institutions to potential purchasers who are competitors without their knowledge in contravention of section 40 (3) of the BoU Act.

a profit of Shs115 billion, up from Shs31 billion a year before. BoU then attempted to prosecute Sudhir to recover some of the losses that BoU had incurred, and for which Sudhir was responsible, but the president blocked this.

The executive director of Supervision (EDS), Bagyenda, was also heavily criticised for her deployment of lawyers in the case against CBL. Bagyenda was closely linked to the law firm MMAKS, to which she had been directing BoU's legal business for many years. The lead lawyer for MMAKS, Timothy Masembe, also represented commercial banks (including Crane Bank), and is the board chairman of NC Bank. Bagyenda had appointed Masembe as transaction advisor in the sale of Crane Bank to dfcu, and hired David Mpanga of the law firm Bowmans, to carry out an audit on Crane Bank, yet the same lawyer was advising dfcu on the acquisition of Crane Bank from BoU. Amidst Sudhir's protests at the conflict of interests involved here, Governor Mutebile wrote to the Bank's legal counsel on 27 March 2017 expressing concerns about exorbitant fees demanded by MMAKS and directing that external lawyers should be rotated. Some involved in the official COSASE investigation strongly suspect that bank closures were seen by both the EDS and the lawyers as a 'bonanza', with reference to the rent-seeking opportunities that they afforded to those involved in handling the process.[57] While rent-seeking may not have been a driver of the three bank closures that occurred from 2012 to 2016, the conflict of interest and rents involved are another example of problems with how banking supervision was being managed and governed within BoU during this period.

Officials working under Bagyenda in Supervision had already started to grow suspicious that their oversight findings on banks were being diluted; for example:

> We would go out there carry out on-sight supervision and write reports of what was on ground. But somehow, these reports would change…I was not surprised when Crane Bank got into trouble. We had for a long time raised concerns about the way that bank was being run. No one wanted to listen. Others became hesitant to make any reports for fear of reprisals. The suspicion was that bank owners and lawyers acting on their behalf had compromised the leadership.[58]

In an internal memo, a deputy director within BoU noted that the leadership of the supervision directorate suffered a silo mentality under Justine Bagyenda, who had not worked in other areas of the bank.[59] This also reflected the governor's management style, which involved delegating heavily to his executive directors. Mutebile had placed a significant level of trust in Bagyenda due to the success of her directorate in stabilising the sector during the 2000s; as such, while the governor and director general were kept informed regarding banks that were facing closure, she was able to run the directorate with considerable autonomy. Moreover, during the period when

[57] Interview, 15 March 2019.
[58] Ex-director BoU Supervision Directorate, 16 April 2019.
[59] BoU official's memo on Supervision of Financial Institutions over the years (April 2019).

Crane Bank was being closed, the governor was badly ill and undergoing daily dialysis treatment at home, leaving the case to be handled by Bagyenda and the deputy governor.

When Mutebile returned to work from illness in early 2018, he moved to reassert his authority, most notably through firing Bagyenda and reassigning the director of Commercial Banking who had been working closely with her. This reshuffle, which sparked the secret presidential investigation, revealed a faultline between the governor and his deputy that dates back to the latter's reappointment in early 2010. Kasekende had apparently hoped to replace Mutebile when his term came up for renewal in late 2010, but his hopes were dashed both then and again in 2015.

This rivalry needs to be seen within the context of President Museveni's growing vulnerability in power. Given the opportunity to appoint a new governor in 2015, Museveni opted once again to re-appoint Mutebile, despite his ill-health and outspoken criticisms of presidential interference with BoU at the 2011 elections (Golooba-Mutebi and Hickey 2016). However, having just sacked a prime minister (Mbabazi) who came from the same region as the governor, the president allegedly felt unable to antagonise the important Kigezi faction within the ruling coalition.[60] As a result, Mutebile was maintained in office and the rift between the competing factions within BoU deepened further. One member of the presidential investigation team attributes BoU's declining performance during the 2012-2016 period to this infighting:

> The Bank is supposed to have teamwork. But here you have camps that are undermining each other. That was always going to be an accident waiting to happen. You cannot run a bank that way. You need the confidence of the markets, confidence of investors. Otherwise the economy could be hurt.[61]

The results of the official investigations collectively constituted "a severe indictment on the integrity of BoU".[62] Despite the IMF publicly praising BoU for its performance in maintaining financial stability over the past two decades (IMF, April 2019), the revelations about BoU's inner workings have significantly reduced its standing as a self-proclaimed centre of excellence.

[60] Interviews with author, July 2016.
[61] Interview, 13 March 2019.
[62] Ex-BoU staff, 9 May 2019,

Table 1: Managing bank closures in Uganda over time

Name of bank closed	Official reasons for closure	Political connections	Evidence from official investigations on whether due process was followed during closure	Impact on financial stability	Any cost to depositors? Any cost to taxpayer?
Teefe Bank Licensed: 1987 Closed: 1993	Insolvency	Owner: Sam Ssebagereka, was a district council chairman and then held several ministerial posts (1988-1994)	BoU did not compile an inventory report before closure as required by law	Not known	BoU reimbursed the depositors. The bank had deposits of Shs. 300m
International Credit Bank Ltd Licensed: 1993 Closed: 18 Sept 1998 20 banks were registered at the time	Poor liquidity and insolvency brought about by imprudent banking practices and poor internal governance	Owners: the Kato family, a prominent business family in the 90s, with interests in media and real estate. One family member was linked to Gen. Salim Saleh (the president's brother). ICB's involvement in the junk helicopter scandal also suggests connections with Gen. Saleh.		BoU claims confidence in the sector improved after the bank's closure.	Government of Uganda spent Shs. 3.98 bn on compensating depositors.
Greenland Bank Ltd Licensed: 1992 Closed: 1April 1998 20 banks were registered at the time	Insolvency and violation of certain provisions of FIS	Founder, Sulaiman Kiggundu was a former governor BoU. Close to Salim Saleh. Towards the bank's closure, reports indicated that Saleh had acquired a stake in the bank.		BoU claims confidence in the sector improved after the bank's closure.	Government of Uganda injected 2.27 billion to pay depositors of the Bank.

The Cooperative Bank Licensed: 1960s Closed: 19 May 1999 20 banks were registered at the time	Continued poor performance and non-compliance with regulatory capital inadequacy requirements	Cooperative Movements, USAID and staff		BoU claims confidence in the sector improved after the bank's closure.	Government of Uganda spent Shs. 59.4 billion compensating depositors.
National Bank of Commerce Licensed: 1994 Closed: 27 Sept 2012 24 banks were registered at the time	Under-capitalisation	Founded by Amama Mbabazi (prime minister at the time of closure of closure), Amos Nzeyi (businessman with close links to the NRM), Ruhakana Rugunda (then minister of ICT, now prime minister), BoU Governor Tumusiime Mutebile (who later sold his shares due to the conflict of interest), among others.	BoU was not only careless but also contravened section 95 (2) (a) to (d) of the FIA, 2004 and section 95 (3) (a) of the FIA, 2000. BoU failed in its statutory obligation (COSASE Report Pg 20)	The banking system remained in a sound financial condition	None. However shareholders are now seeking compensation worth Shs. 295 billion as a result of BoU's violation of FIA in the process of closure.
Global Trust Bank Licensed: 2008 Closed: 25th July 2014 26 banks were registered at the time	Under-capitalisation and corporate governance weaknesses	GTB Board chair, Yakubu Gowan was close to President Museveni and tried to use his clout to block efforts by supervision. Just before the bank was closed Museveni summoned then EDS Justine Bagyenda and Governor Mutebile to a meeting at Serena Hotel in	BoU was not only careless but also contravened section 95 (2) (a) to (d) of the FIA, 2004 and section 95 (3) (a) of the FIA, 2000. BoU failed in its statutory obligation (COSASE Report Pg 20)	The banking system remained in a sound financial condition, and was well capitalised with most of the banks meeting the minimum capital adequacy requirements.	None. However, shareholders are now seeking billions as compensation for losses incurred as a result of BoU's violation of FIA in the process of closure.

		Gowan's Hotel suite and blamed them for frustrating the investor.			
Crane Bank Ltd Licensed: 21 August 1995 Closed: 2 October 2016 Licensed banks at the time were 25	Under-capitalisation	Owner Sudhir Ruparelia: a major financier of the ruling party. Until the fallout, he enjoyed good relations with EDS Bagyenda and had offered her sister a job as the head of the defunct Crane Bank Rwanda.	BoU was not only careless but also contravened section 95 (2) (a) to (d) of the FIA, 2004 and section 95 (3) (a) of the FIA, 2000. BoU failed in its statutory obligation (COSASE Report Pg 20)	Crane Bank closure was achieved without any contagion to the rest of the banking market and without its depositors incurring any losses	Bank of Uganda spent Shs. 500 billion in liquidity support and other costs of closure

Table 2: Explaining BoU performance on price stability: 1986-2018

Time period / performance level	Performance indicators	Political settlement dynamics	Leadership and autonomy	Organisational factors	Ideas (politics. development)	Transnational factors
1986-1992: poor	Inflation rate averages 114.2% (1982-1992), reaching 191% in 1992	Ruling coalition becoming established, focused on ensuring stability and dominance	MoF retains key policy role	Aloof, aristocratic culture	Socialist ambitions	Influence of IFIs limited but growing
1993-2009: good	Inflation averages 10.2%	Dominant ruling coalition establishes deal with senior technocrats on economic governance; ruling coalition increasingly vulnerable from mid-2000s	1993 reforms grant BoU autonomy and mandate to control prices and monetary policy. Strong governors in mid-1990s and from 2001	Research department targeted for capacity-building, benefits from strong leadership. Strong working relationship with MFPED	Nation-building project maintained for first period. Neoliberal ideology becomes strongly established, somewhat challenged from 2006.	IMF and WB very influential: technical assistance, resources, policy advice. Some decline from mid-2000s
2010-12: poor	Inflation averages 23.5% in 2011, inc. spike of 30%. Several cases of political interference with BoU.	Inflationary patronage around the 2011 elections and purchase of fighter jets threatens settlement regarding popular and international legitimacy	Governor admits that money created by BoU may have helped to fund election	Fiscal indiscipline imposed on MFPED has knock-on effect on inflation	Regime survival trumps nation-building	IMF supports Inflation Targeting
2012-2018: good	Inflation rate averages 5.69%	Ruling coalition remains in vulnerable populist mode, but targets	Governor and senior team fight back to reclaim autonomy	Research department maintains technocratic, evidence-based	Regime survival remains the main game but in moderated form.	IMF retains close relations with BoU but increasingly

		treasury fiscal rather than BoU at 2016 poll		approach. Closer ties with MFPED help align fiscal and monetary.	Growing critique of neoliberal orthodoxy	lacks influence on GoU in general

Table 3: Explaining BoU performance on financial stability: 1966-2018

Time period / performance level	**Performance indicators**	**Political settlement dynamics**	**Leadership and autonomy**	**Organisational factors**	**Ideas (politics. development)**	**Transnational factors**
1966-1991: poor, neglect	Low levels of financial stability	Ruling coalition becoming established, focused on stability and development	MoF retains key policy role and oversight of banking sector	Aloof, aristocratic culture	Nation-building project Socialist ambitions	Influence of IFIs limited but growing
1992-1999: average (era of capacity-building and 'learning-by-failing')	Financial stability improves but remains patchy. Four banks fail, indicating lack of proper oversight.	Dominant ruling coalition establishes deal with senior technocrats on economic governance	1993 reforms grant BoU autonomy and mandate over financial stability. Strong governors in mid-1990s and from 2001.	Supervision department targeted lacks strong leadership until the late 1990s.	Nation-building project maintained for first period. Neoliberal ideology becomes strongly established, somewhat challenged from 2006.	IMF and WB very influential until mid-2000s, although little role on Supervision.
2000-12: strong	Financial stability improves considerably; no bank closures; ratios of solvency and liquidity above regulatory minimum	Ruling coalition increasingly vulnerable from mid-2000s. Political interference with BoU grows from 2010	Capable governor throughout, carefully balances BoU performance with occasional political demands	Strong leadership of Supervision department continues Reports of nepotism and politicisation around hiring and promotions	Regime survival trumps nation-building	Basel standards start to become influential

2012-2018: poor	Three controversial bank closures (none follow due process); aggregate financial stability maintained	Ruling coalition remains in vulnerable populist mode, but largely targets fiscal rather than monetary discipline	Factionalism within BoU; governor's poor health undermines oversight	Executive director supervision fired in 2018 Lawyers accused of collusion	Regime survival remains the main game but in moderated form. Growing critique of neoliberal orthodoxy	Basel remains influential

5. Analysis: The politics of BoU's rise and fall

This section analyses the performance of BoU over time in relation to Uganda's shifting political settlement dynamics, issues of leadership and governance, and the role of international ideas and actors (Hickey 2019). Given the somewhat different patterns of performance that we have identified in relation to price stability and financial stability respectively, we also consider the role played by different types of policy challenge.

Political settlement type and dynamics

> Back then, before 2011, the leader was still strong and serious, but with time he has just relaxed (laughing).[63]
>
> …it (BoU) used to be credible and now it's not – party in power has been using it to finance its own interests, it has undercut the credibility that it used to have. It is headed by a cadre governor, the GoU raids the treasury at will to finance its manoeuvres.[64]

As with the case of Uganda's Ministry of Finance, Planning and Economic Development (MFPED, see Bukenya and Hickey 2019), the overall pattern of BoU's performance is strongly shaped by the shifting nature of the country's political settlement. In both cases, the strongest and most sustained periods of high-performance coincided with the 'dominant developmental' phase of the NRM's first 10-15 years in power, when the key institutions of economic governance enjoyed presidential support and protection before the shift towards a more vulnerable-populist form of settlement led directly to a mixture of crisis and decline. This is unsurprising given the close links between the two institutions and their respective mandates for fiscal and monetary policy. Once MFPED became subject to political pressure in 2011, BoU's task of maintaining price stability became significantly harder. It is also notable that BoU's periods of strong performance have coincided with there being a strong and positive relationship between MFPED and BoU (during the early 2000s and, briefly, after the 2011 crisis) and that lower levels of performance have involved this relationship being weakened.[65]

However, this is not just a case of spillover between the two entities. Rather, MFPED was subject to growing political pressures to finance the new politics of regime survival in Uganda from the early/mid-2000s, several years earlier than the BoU was effectively 'captured' in 2010-11. Nor was MFPED's fiscal indiscipline the only cause of the huge spike in inflation that year, with BoU's re-issuing of bank notes flooding the economy with excess cash and the government's purchase of fighter jets resulting in the BoU

[63] MFPED official, 6 July 2017.
[64] Civil society activist, 7 November 2016.
[65] This includes the fiscal indiscipline of MFPED around the 2011 elections, but also the more recent period since 2013 when the part of MFPED responsible for interacting with MFPED, namely the Directorate of Macroeconomic Affairs, has been progressively weakened and sidelined from decision-making within MFPED.

having less foreign reserves to dampen the then exchange rate depreciation.[66] Nonetheless, it seems likely that BoU's greater level of institutional autonomy helped it to hold out against the effects of these changing political dynamics for longer than MFPED, and also helped the governor to fight back against this, as revealed by its sustained good performance on inflation around the 2016 elections (which again saw MFPED subject to capture).

There are several other ways in which Uganda's political settlement has directly shaped BoU's performance over time, including the politics of ethno-regional balancing, the nature of state-business relations and also the militarised nature of the ruling coalition and settlement more broadly. The politics of ethno-regional balancing has been a central feature of Uganda's political settlement since independence (Lindemann 2011). As reported above, this played an important role in President Museveni decision to retain Mutebile as BoU governor in 2015 in order to pacify a powerful faction of the ruling coalition whose other key representative in national politics had just been fired from his post as prime minister.[67] The result – internal factionalism in BoU and a physically ailing governor – would have damaging consequences for the bank's performance, particularly around financial stability.[68]

Khan (2010) notes that the link between a given country's political settlement and its growth potential is shaped in part by the productive quality of its capitalists and the relationships they have with the ruling coalition. This is reflected in Uganda's banking sector, where early bank failures resulted to a large extent from poor business practices and in some cases collusion with members of the 'first family' (notably the president's brother, see Table 1). The controversial closure of Crane Bank cannot be divorced from issues of party-political financing. The differential levels of holding power amongst different capitalists and groups in Uganda also has at least some influence over BoU's policy on price stability and also exchange rates, in that certain economic interest groups exert more influence than others. This is particularly the case with traders selling imported goods, whose preference for low prices (and perhaps even more so for a strong shilling) feeds directly through to political actors and onto BoU through their (frequent) threats to bring Kampala to a standstill.[69] These relationships both reflect the broader character of the rents-space in Uganda's political economy, whereby, in the absence of a large, taxable, capitalist sector, the political elite tend to finance their position of power by capturing unproductive rents and thus have few

---

[66] The period 2010-2011 also marks the point at which BoU insiders say they started to notice a decline in the standards of recruitment and promotion, with meritocracy giving way to other concerns.

[67] Given that the governor is from the Bakiga in the west and the deputy from Baganda (which supplied all central bank governors prior to Mutebile), the secretive tripartite investigation into BoU ordered by the president in late 2018 included a focus on 'tribalism'.

[68] Interviewees knowledgeable about the circumstances of Mutebile's re-appointment in 2016 note that the president first consulted whether he could appoint a governor for just two years and then replace him but was told this was not possible.

[69] Interview with ex-MFPED advisor who sat on joint MFPED-BoU meetings on macroeconomic policy (15 March 2019).

incentives to discipline business and create the conditions for capitalist structural transformation (Bukenya and Hickey 2018).

Finally, the BoU has often been caught between two dimensions of state-building, involving the centralisation of violence and provision of security on the one hand and the establishment of economic stability on the other. This dialectic between military and economic logics was apparent in its origins at a critical moment of state formation in Uganda around the Baganda crisis of 1966-67 (Mazrui 1991) and at multiple points thereafter, including Amin's alleged murder of the first central bank governor (op. cit.). Museveni's rhetoric of 'discipline' in the early 1990s provides the one moment where a positive synergy between fiscal and military logics was established in ways that strengthened central bank autonomy and secured Uganda the macroeconomic stability required to start its record-breaking period of growth (Tumusime-Mutebile 2010). Thereafter, the political incentives and ideological commitment that had underpinned presidential commitment to macroeconomic stability waned, and a new politics of populist regime survival emerged amidst shifting geopolitical dynamics that involved both new security threats and new militarised alliances (eg, involving Somalia and the United States). This required major investments in both populist giveaways and military expenditure, with BoU caught in the crossfire of both, as with the purchase of junk helicopters from Belarus in 1997 under political pressure and the 2011 purchase of Russian fighter jets. Here, BoU reflects the wider sense in which central banks are often closely entwined with the underlying logics of state-building, including in ways reflected by the Bank of England, the key founding influence on BoU. England's central bank was founded in 1694 to help finance the nine years war and would go on to play a key role in bankrolling not only the mercantile but also the military adventurism of the English government at the time (Kynaston 2017).

Ideas

Shifting ideas around how Uganda's economy should be governed also matter here. The neoliberal consensus that emerged amongst most of the leading political and bureaucratic elite in the early 1990s did a great deal to ensure coherence between MFPED and BoU, to align BoU with strong sources of international assistance, ideas and finance, and to provide ideological coherence within the 34rganization. It is notable also that the deal between ruler, BoU leaders and donors started to fracture after 2006, as Uganda's political economy profoundly changed in ways that heralded a partial ideological shift towards a more transformative and fiscally expansive mode of development.

Current calls for BoU to adopt a more activist approach, in line with the role played by central banks throughout most of recent history (Epstein 2005) are growing louder, including with reference to greater support for the Uganda Development Bank. Even insiders who helped engineer Uganda's neoliberal reforms concur that there has been a lack of structural transformation and investment in industry (Whitworth and Williamson 2010). However, BoU's current leadership remain firmly opposed, convinced that maintaining price stability is not a barrier to structural transformation but is critical for growth, attracting investment and also protecting the poorest from increased costs of living.[70] BoU did advocate for the 35rganizationa of agriculture but opposed major new investment expenditures), often following battles with the National Planning Authority that BoU (and the treasury) nearly always wins (Hickey 2013). The uneven nature of this contest reflects the capacity-building investments in MFPED and BoU during the 1990s. This move was arguably essential at the time to rein in fiscal indiscipline and 35rganizat the economy, but it was noticeably not accompanied by anything like the same level of investment in the parts of government associated with a more activist and productivist policy agenda (eg, Investment, Industry, Trade, Agriculture). As Jessop (2015: 68) notes, 'The relative dominance of departments or ministries can underwrite the hegemony of specific material or ideal interests'.

Leadership and political management

> I cannot over-emphasise central bank independence, we can say no to government; I am appointed by government but it is independent in terms of decision-making, its policies. We are not just independent on paper![71]

BoU's performance over time has been closely shaped by the changing nature of its mandate and the strong legal backing for this, most obviously through the 1993 reforms but also at several points thereafter (eg BoU Act 2000, FIA 2004). For some policy challenges, the link between a new mandate and higher levels of performance was almost immediate, as with improved levels of price stability. Whereas, it took BoU much longer to gain the capacity and commitment to deliver on other aspects, particularly banking supervision during the 1990s. This mandate, and BoU's relative autonomy to pursue it, clearly differentiates it from most other public sector organisations in Uganda. Nonetheless, formal rules are generally undermined in Uganda (Andrews and Bategeka 2013) and it requires a high-degree of agency, in this case from 35rganizational leadership, to ensure that reforms actually get implemented.

Since 2001, Governor Mutebile has been the country's archetypal 'technopol',[72] providing the interface between the dominant ideas and incentives emanating from Uganda's political settlement and BoU. The country's longest-serving governor, Mutebile held a largely strong line against political interference throughout the 2000s, 'fending out unwanted outreach', as one BoU official put it.[73] Many point to Mutebile's strength of character and willingness to stress the limits of interference in public pronouncements and privately to ministers.[74] At the same time, there is no doubting Mutebile's loyalty to the president. Close observers note that Museveni's reluctance to retire the governor is because he trusts him to know when to hold the line and when to bend, whereas the deputy governor (and potential replacement) is viewed as too rules-

[70] Interview with senior BoU official, 12 March 2019.
[71] Governor BoU, 13 March 2019.
[72] The term 'technopol', which refers to actors that transcend the categories of 'technocrats' or 'politicians', by virtue of possessing both the technical and political resources required to drive forward certain policy and organisational agendas (Domínguez 1997, Joignant 2011).
[73] Interview, 13 March 2019.
[74] Interviews, including with senior BoU staff, 12 March 2019.

bound and politically inflexible.[75] A source close to the president suggests that, around the 2011 elections,

> Museveni did not call governor (to ask him to print money). He (Mutebile) balances the political with the interests of the IMF, and realigns policy objectives accordingly. Museveni needs him to interface with IMF, will call and ask for help, but he will not ask anyone to do something against … it is not in his nature. Mutebile reads his mind and will strike a balance between the two. If the two were at conflict it would not work.[76]

This delicate balancing act collapsed around the 2011 elections, when, alongside with the controversial compensation payment and Russian fighter jets episodes, the BoU was effectively captured. This in turn shook the foundations of Uganda's transnational political settlement, catalysing popular protests on the street, breaking the deal around inflation and leading the IMF to withdraw its support (Golooba-Mutebi and Hickey 2016).

Nonetheless, Mutebile then fought back to reclaim BoU's autonomy through a sustained media campaign and backstage lobbying of the president and cabinet. His physical decline marks the second time since the NRM came to power that BoU's performance has suffered badly as a result of an unwell governor arguably being allowed to stay too long in office for reasons of political calculus or neglect:[77]

> Current governor? He made the line stronger, mainly in the first eight or 10 years, the first two terms was very strong. And then, I can't blame the political side per se, but also his health side, he started falling sick, so then the political people can ask and he might not resist.[78]

Despite BoU's official autonomy, the president retains the power to appoint the governor, and with the term up for renewal around three months before presidential elections on the same five-year cycle, the scope for the post to become politicised is significant.

Organisational culture

It is less clear that Mutebile did very much to imbue the central bank with a sense of organisational mission. His management style involves delegating virtually all operational decisions to his executive directors, trusting them to do their work and then

[75] For one close observer, 'The governor should have retired six years ago – Kasakende should have taken this, but they don't trust him, politically. He (Museveni) likes some of the 1980s generation around as he is so old' (member of parliament, 8 November 2017).
[76] Interview, 28 July 2016.
[77] Between the mid-1990s and 2000, when BoU experienced another crisis involving the closure of four banks, the then governor Kikonyogo was sickly and his sickness made it impossible to exercise robust supervision of his junior just as appeared to have happened with Mutebile between 2016 and 2017.
[78] Senior BoU official, 12 March 2019.

backing them strongly. This seemed to work well in many instances, including the freedom that it granted the current deputy governor to continue building up a high-performing research directorate. However, when coupled with a hierarchical structure that makes it very difficult for junior staff to challenge senior staff, this also creates space for staff to engage in malpractice, as illustrated by the case of the executive director for supervision from 2005 to 2018. As one previous employee who worked closely with the governor notes:

> He (Mutebile) doesn't know system, how it operates. What he does is trust the system, doesn't micro-manage, trusts execs to do the work. He believes in EDs, only knows what they tell him, trusts the hierarchy.[79]

Several respondents reported that whilst the governor delegated significant authority to his executive team, the BoU operated in a very hierarchical way that often slowed down decision-making processes.

BoU is renowned as offering the best working conditions within the country's public sector, assisted by high levels of funding from the IMF in particular; as one senior BoU official told us, 'BoU is the best employer in Uganda'.[80] Staff are highly paid and receive many extra benefits, including extensive funding for training, generous pensions and health coverage. Unlike with MFPED, we found little evidence of a sustained effort to create an organisational culture that put the institution (and/or the country) ahead of individual fulfilment (cf. Grindle 1997). It was notable that when we asked BoU staff about 'organisational culture', all comments focused on working conditions and staff perks, rather than broader issues of organisational mission or commitment to a national project (Grindle 1997). Questioned directly on this issue, the current governor agreed that 'It (BoU) was different, less mission driven than MFPED'.[81] Professional pride is a feature at BoU and central bank staff value the extensive training opportunities on offer. However, there remains the sense that this is a bureaucratic aristocracy rather than a mission-driven organisation. The greater autonomy enjoyed by BoU as compared to its more politically connected counterpart, the Treasury, may have undermined the possibility of a more progressive or even patriotic organisational culture developing.

The public nature of the investigations has diminished the sense of pride that used to accompany working for the central bank. The recent crisis and associated factionalism have further undermined the culture within the Bank, with trust between staff at an all-time low and staff from one faction seeking to undermine those from the opposing side. One senior official suggested that:

> It (the crisis) has had a serious detrimental impact on performance; people don't want to work at all. You give someone an assignment, they bring you

[79] Ex-BoU official, 12 March 2019.
[80] Interview, 12 March 2019.
[81] Interview, 13 March 2019.

> garbage. By 9am no-one is here, they have left by 3.30pm, lack of interest, you see it across the board, most departments.

The increased use of head-hunting within BoU from 2010 has also created unease, partly because of the sense that this offered a route to nepotistic hiring and partly because it disturbed what existing BoU staff viewed as the natural order of progression, whereby senior positions would go to those who worked themselves up through the ranks. Senior officials admit that head-hunting has been abused, with people hired as a result of family connections and political influence.[82] Other staff and observers note that this increased discretion has reduced the quality of staff being appointed and promoted in recent years and problematically increased BoU's operating costs. Some officials draw a direct line between the growing unease within the ranks over these dynamics and the damaging revelations made during the 2018 investigations.[83]

Policy challenge

BoU has found it comparatively easier to establish and maintain high levels of autonomy and performance in relation to the logistical challenge of controlling inflation than it has with regards to the much more transactional challenge of maintaining financial stability, where the opportunities for collusion are much greater. This is partly because MFPED was strongly committed to low inflation in the 1990s and because of the differing levels of political importance that are placed on these two functions: Uganda's ruling elite recognise that high levels of inflation are damaging to political as well as macroeconomic instability, and have proved generally supportive of allowing the BoU autonomy in this regard. The banking sector is somewhat less critical to maintaining the current political settlement, in part because (unlike in Kenya), private banking has not historically been a key conduit of political financing. However, it is also because of the nature of the policy challenge itself: there are much fewer rent-seeking opportunities to be had within the Research Directorate or Monetary Policy Committee as compared to within Banking Supervision, where staff must interact frequently with banks that are not just secretive and difficult to regulate but also (at times) open to collusive activities. Banking supervision has also proven to be a domain within which unscrupulous lawyers operating on both sides of the fence can actively nurture such collusion. The distinction between 'logistical' and 'transactional' policy challenges then (Andrews et al. 2013), and the assumption that PoEs are more likely to emerge and be sustained around the former (Roll 2014), is strongly sustained here. While the political settlement describes the national political economy, which in turn shaped the BoU's performance, the different nature of the BoU's policy mandates shaped its comparative performance on these challenges within this broader structure.

Transnational influences

BoU's trajectory over time cannot be understood without reference to 'external' influences. Ex-Bank of England staff exerted a profound influence on its structure, policy orientation and capacity during the early stages, before the international

---

[82] Interviews, 12-13 March 2019.
[83] Staff interviews, March-May 2019.

financial institutions became the key source of ideas, resources and assistance from the 1980s onwards. Whereas some accounts explain BoU's shift from a more expansionist and heterodox mode of operation to a more circumscribed and neoliberal model in the early 1990s as largely driven by external actors, our analysis and sources suggest that domestic drivers were at least as and probably more significant (Byarahunga et al. 2010, several interview sources from both government and donor perspectives). Nonetheless, the IFIs exerted an important influence over the forms that these reforms took and also BoU's overall policy direction, albeit largely through well-placed assistance (funded the salaries of staff, seconded technical advisors and sponsored study trips) than outright conditionality (Dafe 2017). The IMF, with its offices located within the central bank itself, helped forge a powerful 'finance ministry' within Uganda that has been dedicated to maintaining a neoliberal policy direction despite pressures from the mid-2000s for a more ambitious and productivist development agenda. Disagreements are rare and largely handled amicably. It is notable that the IMF has been the only public defender of BoU amidst its recent travails, issuing a strongly supportive statement in April 2019 as a means of heading off what it sees as reformist threats to BoU's autonomy and governance structure.

6. Conclusion and emerging implications

The Bank of Uganda's reputation as the country's premier public sector agency over the past three decades was largely deserved, as it maintained high levels of performance around its two key mandates of maintaining financial and (in particular) price stability. Benefitting from greater immunity to political interference due to its higher level of organisational autonomy, it has nonetheless proved vulnerable to Uganda's changing political settlement dynamics. While its periods of strongest performance align with periods in which the political settlement was 'dominant developmental', during the NRM's first 10-15 years in power, when the political settlement became more 'populist-authoritarian', BoU faced political pressure to use its financial power to support the president's political security and its performance as a regulator declined. However, that the BoU has tried and to some extent succeeded in fighting back against these pressures offers an interesting insight into the degree of agency that bureaucrats and bureaucratic agencies can exert through a variety of strategies, including a powerful media operation and highly visible leader. In the context of Uganda's militarised political settlement, BoU's history offers important insights into how two of the main dynamics of state-building, military/security power and economic control, have played out over time in ways that have shaped bureaucratic performance.

As a result of the recent crisis, and also a coincidental and ongoing review into BoU's governance structure, BoU now faces significant pressure to undergo reforms, including to secure higher levels of accountability to parliament. One risk to this is that it may make it difficult for BoU to argue for its recapitalisation (its reserves were running low by the time this research concluded in 2019), which insiders fear will further undermine its autonomy. In these regards, as well as in terms of the pressure that it has faced from a populist-authoritarian leader, BoU is reflecting wider trends around the politics of central banking in Africa and beyond. How these pressures are handled will offer important insights into the future direction of state-building, regime survival and development strategy in Uganda.

References

Andrews, M. and Bategeka, L. (2013). 'Overcoming the limits of institutional reform in Uganda'. ESID Working Paper 27. Manchester: Effective States and Inclusive Development Research Centre, The University of Manchester.

Barkan, J. (2011). *Uganda: Assessing Risks to Stability*. A Center for Strategic and International Studies Report. Washington, DC: CSIS.

BoU (1967-1968). *Annual Report*. Kampala: Bank of Uganda.

BoU (1968). *Annual Report*. Kampala: Bank of Uganda.

BoU (1993). *The Annual Supervision and Regulatory Report*. Kampala: Bank of Uganda.

BoU (1999). *The Annual Supervision and Regulatory Report*. Kampala: Bank of Uganda.

BoU (2001). *The Annual Supervision and Regulatory Report*. Kampala: Bank of Uganda.

BoU (2002). *The Annual Supervision and Regulatory Report*. Kampala: Bank of Uganda.

BoU (2004). *Bank of Uganda Supervision Report 2004*. Kampala: Bank of Uganda.

BoU (2012). *The Annual Supervision and Regulatory Report*. Kampala: Bank of Uganda.

Branch, A. and Z. Mampilly (2015). *Africa Uprising: Popular Protest and Political Change*. London: Zed Books.

Brownbridge, M. (1996) 'Financial repression and financial reform in Uganda', IDS Working Paper 30, Brighton: IDS.

Bukenya, B. and Hickey, S. (2018). 'Dominance and deals in Africa: How politics shapes Uganda's transition from growth to transformation'. In L. Pritchett, K. Sen and E. Werker (eds.), *Deals and Development: The Political Dynamics of Growth Episodes*. Oxford: Oxford University Press.

Bukenya, B. and Hickey, S. (2019). 'The shifting fortunes of the economic technocracy in Uganda: Caught between state-building and regime survival?' ESID Working Paper 121. Manchester, UK: Effective States and Inclusive Development Research Centre, The University of Manchester.

Byaruhanga, C., Henstridge, M. and Kasekende, L. (2010). 'Exchange rate, fiscal, and monetary policy'. In F. Kuteesa, E. Tumusiime-Mutebile, A. Whitworth and T. Williamson (eds.), *Uganda's Economic Reforms: Insider Accounts*, Oxford: Oxford University Press (52-88).

COSASE (2019). *COSASE Report on the Special Audit of the Auditor General on Defunct Banks*.

Dafe, F. (2015). *Structural Power and the Politics of Central Bank Policy in Developing Countries*. PhD Thesis. IDS: University of Sussex.

Dafe, F. (2017) 'The politics of finance: How capital sways African central banks'. *Journal of Development Studies*, p.1-17.

Domínguez, J. I. (1997). *Technopols: Freeing Politics and Markets in Latin America in the 1990s*. University Park, PA: Penn State Press.

Eberhard-Ruiz, A. (2016). *Uganda's Macro-fiscal Challenges in the Context of Changing Public Expenditure Priorities*. Kampala: Report for the European Union.

Epstein, G. (2005) 'Central banks as agents of development'. Political Economy Research Institute Working Paper 104. University of Amherst.

Grindle, M. S. (1997). 'Divergent cultures? When public organizations perform well in developing countries'. *World Development*, 25(4): 481-495.

Grindle, M. S. (2012). *Jobs for the Boys: Patronage and the State in Comparative Perspective*. Cambridge, MA: Harvard University Press.

Golooba-Mutebi, F. (2008). 'Collapse, war and reconstruction in Uganda: An analytical narrative on state making', Working Paper 27: Crisis States Research Centre. London: London School of Economics and Political Science.

Golooba-Mutebi, F. and Hickey, S. (2016). 'The master of institutional multiplicity? The shifting politics of regime survival, state-building and democratisation in Museveni's Uganda'. *Journal of Eastern African Studies,* 10(4): 601-618.

Golooba-Mutebi, F. and Hickey, S. (2013). 'Investigating the links between political settlements and inclusive development in Uganda: Towards a research agenda'. ESID Working Paper 20. Manchester: Effective States and Inclusive Development Research Centre, The University of Manchester.

Harrison (2010). *Neoliberal Africa: The Impact of Global Social Engineering*. London: Zed.

Hickey, S. (2013). 'Beyond the poverty agenda? Insights from the new politics of development in Uganda', *World Development*, 43: 194-206.

IMF. (1991). *Financial Sector Review Report No. 9099-UG*. IMF.

Izama, A. and Wilkersen, M. (2011). 'Uganda: Museveni's triumph and weakness'. *Journal of Democracy* 22(3): 64-78.

Jessop, B. (2015). *The State: Past, Present, Future*. Cambridge: Polity Press.

Khan, M. (2010). 'Political settlements and the governance of growth-enhancing institutions'. Mimeo. London: SOAS.

Kjaer, A. M. (2015). 'Political settlements and productive sector policies: Understanding sector differences in Uganda'. *World Development* 68: 230-241

Kynaston, D. (2017). *Till Time's Last Sand: A History of the Bank of England 1694-2013*. London: Bloomsbury.

Lindemann, S. (2011). 'Just another change of guard? Broad-based politics and civil war in Museveni's Uganda'. *African Affairs* 110(440): 1–30

Mazrui, A. A. (1991). 'Privatisation versus the market: Cultural contradictions in structural adjustment', in H. B. Hansen and M. Twaddle (eds.), *Changing Uganda* Oxford/Kampala: James Currey/Fountain Publishers (pp. 351-378).

Mutebile, E. T. (2010). 'Institutional and political dimensions of economic reform'. In F. Kuteesa, E. Tumusiime-Mutebile, A. Whitworth and T. Williamson (eds.), *Uganda's Economic Reforms: Insider Accounts*. Oxford: Oxford University Press (35-51).

Mutibwa, P. (2006) *The Bank of Uganda (1966-2006). A Historical Perspective*. Kampala: BoU.

OAG (2018). *Special Audit of Bank of Uganda on Defunct Banks*. Kampala: GoU.

Roll, M. (ed.) (2014). *The Politics of Public Sector Performance: Pockets of Effectiveness in Developing Countries*. London and New York: Routledge.

Suruma, E. (2014) *Advancing the Ugandan Economy: A Personal Account*. Washington, DC: Brookings Institution Press.

Whitfield, L., Therkildsen, O., Buur, L. and Kjaer, A. M. (2015). *The Politics of African Industrial Policy: A Comparative Perspective*. Cambrdige: Cambridge University Press.

Whitworth, A. and Williamson, . (2010) 'Overview of Ugandan economic reform since 1986'. In F. Kuteesa, E. Tumusiime-Mutebile, A. Whitworth and T. Williamson (eds.), *Uganda's Economic Reforms: Insider Accounts*. Oxford: Oxford University Press (1-34).

The Effective States and Inclusive Development Research Centre

The Effective States and Inclusive Development Research Centre (ESID) aims to improve the use of governance research evidence in decision-making. Our key focus is on the role of state effectiveness and elite commitment in achieving inclusive development and social justice.

ESID is a partnership of highly reputed research and policy institutes based in Africa, Asia, Europe and North America. The lead institution is The University of Manchester.

The other institutional partners are:

- BRAC Institute of Governance and Development, BRAC University, Dhaka
- Center for Democratic Development, Accra
- Center for International Development, Harvard University, Boston
- Department of Political and Administrative Studies, University of Malawi, Zomba
- Graduate School of Development, Policy & Practice, Cape Town University
- Institute for Economic Growth, Delhi

In addition to its institutional partners, ESID has established a network of leading research collaborators and policy/uptake experts.

email: esid@manchester.ac.uk
Effective States and Inclusive Development Research Centre (ESID)
School of Environment, Education and Development, The University of Manchester, Oxford Road, Manchester M13 9PL, UK
www.effective-states.org