

## AFRICA RISK CONSULTING

### Uganda Monthly Briefing January 2019

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#### Uganda Summary 20 January 2020

**Police arrest popular opposition legislator Robert Kyagulanyi, also known as Bobi Wine, at a political meeting as the government clamps down on the popular legislator ahead of the 2021 presidential election. Finance ministry reveals that Uganda has experienced politically induced decline in its volume of trade with neighbouring countries. Uganda releases nine Rwandan suspects from custody amid efforts to defuse tensions between the two countries. The World Bank projects strong economic growth for Uganda amidst increasing debt and depletion of the Petroleum Fund.**

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#### Police arrest Bobi Wine

Police arrested popular musician and independent legislator **Robert Kyagulanyi** (also known as **Bobi Wine**) in **Kasangati** town (**Wakiso** district) on 6 January, accusing him of attempting to hold an illegal political rally.<sup>1</sup> The incident highlights the formidable challenge that Kyagulanyi faces in his bid to unseat President **Yoweri Museveni** (1986-present) in elections scheduled for 2021.<sup>2</sup> Kyagulanyi had organised the public meeting as part of a series of consultative engagements with his supporters on his presidential campaign.<sup>3</sup> Police fired teargas to disperse his supporters, who had gathered outside a Catholic church in the area, which is his parliamentary constituency.<sup>4</sup> Supporters protested, burning car tyres and blocking roads, while the police used water cannons, rubber bullets and teargas to quell the demonstrations.<sup>5</sup>

**Uganda National Police** representative **Edson Muhangi** said that Kyagulanyi had tried to hold a meeting in an open area, while police had only granted approval for a meeting in an enclosed area such as a conference hall:<sup>6</sup>

*"This [is] not an enclosed space, we cannot even allow them to be here... We are reliably informed that their aim is to engage us so that they can be seen exchanging words, fighting with the police and tarnishing the image of Uganda."*<sup>7</sup>

Police arrested Kyagulanyi, and police spokesman **Fred Enanga** confirmed that authorities were looking at pressing charges of unlawful assembly:

*"We are temporarily holding them in our police station in Kasangati. We shall have to release them at some later stage but we are looking at charges of holding an unlawful assembly and disobedience to lawful orders."*<sup>8</sup>

Museveni tacitly launched his 2021 campaign by embarking on a six-day march through the jungle on 5 January.<sup>9</sup> The march was ostensibly to commemorate the journey that his insurgent group, the **National Resistance Movement (NRM)**, took in the final stages of the guerrilla war that brought

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<sup>1</sup> Reuters, 6 Jan 2020.

<sup>2</sup> Reuters, 6 Jan 2020.

<sup>3</sup> Reuters, 6 Jan 2020.

<sup>4</sup> Al Jazeera, 6 Jan 2020.

<sup>5</sup> Al Jazeera, 6 Jan 2020.

<sup>6</sup> Reuters, 6 Jan 2020.

<sup>7</sup> Police representative, Edson Muhangi quoted in Reuters, 6 Jan 2020.

<sup>8</sup> Police spokesman Fred Enanga quoted by Al Jazeera, 6 Jan 2020.

<sup>9</sup> BBC, 5 Jan 2020.

Museveni to power in 1986.<sup>10</sup> Critics dismissed the 195-kilometre walk as a campaign stunt ahead of the 2021 elections. Opposition legislator **Asuman Basalirwa** said,

*“Ugandans deserve better than a president walking through a jungle. Time should be used for other important issues affecting the country, especially how he wants to hand over power.”<sup>11</sup>*

Museveni’s government has responded to Kyagulanyi’s growing popularity by barring him from holding music concerts and political rallies.<sup>12</sup> The government has also prohibited him from holding meetings to prevent mass riots emerging from the public rallies. However, this has not diminished the youthful politician’s appeal to Uganda’s young voters, especially in poor urban areas. Uganda faces a tumultuous year politically ahead of the 2021 election.<sup>13</sup> The government’s suppression of Kyagulanyi’s political activities may result in spontaneous riots, particularly since his political support reflects the electorate’s frustration with deteriorating socio-economic and political conditions under President Museveni.

### Trade decline hits Uganda ...

The finance ministry’s external trade performance report for the 2018/19 year shows that Uganda’s poor diplomatic relations with neighbouring countries has caused a decline in trade volumes.<sup>14</sup> Uganda’s political tensions with other countries in the **East African Community (EAC)** region, particularly **Rwanda**, are continuing to have an economic impact.<sup>15</sup> The report shows Uganda’s trade volumes with EAC countries fell from \$932m in the 2017/18 financial year, to \$11m in the just ended 2018/19 period.<sup>16</sup> Uganda exported goods worth \$1.16 billion in 2018/19, down from \$1.55 billion the previous year. Finance minister **Matia Kasaija** attributed the decline to non-tariff barriers in some of the EAC states, especially **Tanzania** and Rwanda.<sup>17</sup>

*“The trade surplus with EAC slowed down in the FY 2018/19 compared to FY 2017/18 mainly on account of [the] existence of non-tariff barriers in some partner states-most especially in Tanzania, the temporary closure of Uganda-Rwanda border, and the decline in agricultural exports such as beans and maize to the region.”<sup>18</sup>*

With regards to **Kenya**, Kasaija indicated that the decline in trade in agricultural commodities, primarily sugar and cereals, resulted from Kenya’s decision to boost production in the same goods.<sup>19</sup> This resulted in trade between Kenya and Uganda dropping from \$694m to \$487m.<sup>20</sup> The same trend occurred in Uganda’s trade deficit with Tanzania, where Uganda imported goods worth \$433m but only exported \$77m.<sup>21</sup> Uganda’s trade similarly fell with Rwanda, mainly as a result of ongoing political tensions that intensified from February 2019.<sup>22</sup> Uganda’s exports to Rwanda fell from \$253m in the 2017/17 year, to \$167m in the 2018/19 year.<sup>23</sup> Conversely, Uganda’s imports from Rwanda dropped to \$15m in 2018/19 compared to \$20 m the year before.<sup>24</sup> Rwanda accused Uganda of harbouring insurgent groups preparing to invade Rwanda, while Uganda accuses Rwanda of infiltrating Uganda with spies.<sup>25</sup>

<sup>10</sup> BBC, 5 Jan 2020.

<sup>11</sup> Opposition MP Asuman Basalirwa quoted by BBC, 5 Jan 2020.

<sup>12</sup> Source, analyst, London

<sup>13</sup> Source, analyst, London

<sup>14</sup> Daily Monitor, 25 Dec 2019.

<sup>15</sup> Daily Monitor, 25 Dec 2019.

<sup>16</sup> Daily Monitor, 25 Dec 2019.

<sup>17</sup> Daily Monitor, 25 Dec 2019.

<sup>18</sup> Finance minister Matia Kasaija quoted in Daily Mirror, 25 Dec 2019.

<sup>19</sup> Daily Monitor, 25 Dec 2019.

<sup>20</sup> Daily Monitor, 25 Dec 2019.

<sup>21</sup> Daily Monitor, 25 Dec 2019.

<sup>22</sup> Daily Monitor, 25 Dec 2019.

<sup>23</sup> Daily Monitor, 25 Dec 2019.

<sup>24</sup> Daily Monitor, 25 Dec 2019.

<sup>25</sup> Daily Monitor, 25 Dec 2019.

Uganda's diplomatic relations with the EAC states is unlikely to improve in 2020, especially as Museveni and the ruling NRM step up campaigns for re-election.<sup>26</sup> Since the decline in trade with some of the EAC states such as Kenya is due to product substitution, the volume of trade is also unlikely to improve.<sup>27</sup> Although Uganda has taken steps to implement the terms of the **Luanda Peace Accord** with Rwanda, political relations between the two countries will remain tense (see below).<sup>28</sup> This is because the government of Rwanda is in a heightened state of security amid fear of potential attack from insurgents operating in Uganda and the **Democratic Republic of the Congo**.<sup>29</sup>

### ... as Uganda releases Rwandans to ease political tensions

The Uganda National Police freed nine Rwandan nationals on 8 January, some of whom who had been in custody since 2018, as part of efforts to reduce tensions with the neighbouring country in terms of the Luanda Peace Accord that the two countries signed in **Angola** last August. Uganda's foreign minister, **Sam Kutesa**, expressed his government's hope that this would improve relations between the two countries:

*"It is the hope of the Uganda government that the Rwandese authorities will reciprocate the gesture of goodwill that we are making today; and to further assure you that any outstanding issues and concerns will be addressed in an open and transparent manner."*<sup>30</sup>

However, Kutesa emphasised that the release of the prisoners did not imply that they were innocent:

*"Let me state for the record that we have withdrawn charges against these nine people by entering a nolle prosequi (decision to drop charges against a suspect) [but] the charges that they were being held for and the arrests they had been under were not arbitrary. This is an act of goodwill which we hope will be reciprocated by the Rwanda government by dealing with the other issues we have raised. It is not an acquittal. It is a withdrawal of charges and you could be rearrested or be recharged."*<sup>31</sup>

Rwanda described the release of the prisoners as a positive step towards resolving the two countries' diplomatic tiff, although more work was pending in this regard.<sup>32</sup> Rwanda's high commissioner to Uganda, major general **Frank Mugambage** said he appreciated the release as a step in the right direction,

*"... and mentioning 'step' because I always want to be very clear that a step in the right direction needs to be followed by further action to end those concerns... For me and the country I represent, it is this will to establish running of bilateral relations that will revamp the associated, mutually beneficial activities including economic and what is usually talked about-the uninterrupted activities along the common border."*<sup>33</sup>

Charges against the released suspects mainly stemmed from the kidnapping and forcible repatriation of Rwandese refugees and possession of illegal firearms.<sup>34</sup> Uganda and Rwanda have historically high tensions, which climaxed in February 2019 when Rwanda closed its **Gatuna** border with Uganda.<sup>35</sup> This has resulted in a sharp decline in trade between the two countries (see above) and killing of civilians attempting to smuggle goods between the two countries.<sup>36</sup> Political tensions between Uganda and Rwanda will continue in 2020, since the causes of distrust between the two countries run deep,

<sup>26</sup> Source, analyst, London

<sup>27</sup> Source, analyst, London

<sup>28</sup> Source, analyst, London

<sup>29</sup> Source, analyst, London

<sup>30</sup> VoA, 8 Jan 2020.

<sup>31</sup> Daily Monitor, 8 Jan 2020.

<sup>32</sup> VoA, 8 Jan 2020.

<sup>33</sup> Rwanda's high commissioner to Uganda, major general Frank Mugambage quoted by Daily Monitor, 8 Jan 2020.

<sup>34</sup> The Observer, 8 Jan 2020.

<sup>35</sup> Source, analyst, London

<sup>36</sup> Source, analyst, London

and mainly result from Rwanda's fears of insurgent activity in Uganda and the DRC.<sup>37</sup>

### World Bank projects solid economic growth for Uganda in 2020

The **World Bank** has placed Uganda in the category of **sub-Saharan African** countries that will post strong economic growth, in its **Global Economic Prospect** for 2020.<sup>38</sup> Sustained infrastructure spending, increased private sector activity and agricultural exports will largely account for the expected growth.<sup>39</sup> Sub-Saharan Africa as a region will experience an average economic growth rate of 2.9% in 2020, conditional on improved investor confidence.<sup>40</sup> The World Bank further indicated that oil production will partly account for the projected economic growth:<sup>41</sup>

*"Among the region's exporters of agricultural commodities, sustained strong public infrastructure spending, combined with increased private sector activity in Uganda, Madagascar and Rwanda... [will see] growth edge up to 6%."*<sup>42</sup>

Despite the expected economic growth, Uganda's government indicated that it will borrow \$1.89 billion from external lenders to partly fund its 2020/2021 budget.<sup>43</sup> The finance ministry anticipates increased spending, as incumbent president Yoweri Museveni prepares for re-election in 2021.<sup>44</sup> The government's prospective lenders will include **China**, which has been one of the country's leading sources of externally derived funding.<sup>45</sup> Public spending typically increases during elections in Uganda, primarily because the ruling NRM uses government resources in electoral campaigns.<sup>46</sup>

The government faces criticism for its increasing borrowing, some of which it has front-loaded against anticipated oil revenues, which the government expects to start receiving in 2022.<sup>47</sup> Recently, the finance ministry revealed plans to borrow \$661m from international banks to supplement the 2019/2020 budget because the **Uganda Revenue Authority (URA)** had missed its domestic revenue collection target by 9%.<sup>48</sup> The government maintains that its borrowing is still above board since it is 41% of the gross domestic product (GDP), well below the 50% recommended by the **International Monetary Fund (IMF)**.<sup>49</sup> However, the rate at which the government is borrowing may result in its surpassing the 50% mark by the end of the 2020/2021 fiscal year.

Finance ministry state minister **David Bahati** said that the government had already exhausted finances in the **Petroleum Fund** because of frequent withdrawals to supplement the budget.<sup>50</sup> The **Bank of Uganda (BoU)** (central bank) manages the Petroleum Fund, which consists of three accounts: two dollar and shilling accounts in Uganda that the BoU directly oversees, and a third dollar account in **New York (United States)** that the BoU uses to invest oil revenue.<sup>51</sup>

*"There is no money in the Petroleum Fund... We appropriated what was there last year so we cannot get what is not there. We've got to expand our revenue base."*<sup>52</sup>

The government withdrew \$34m in November 2017 to supplement the budget and transferred another \$54.4m to the **Consolidated Fund** to supplement the 2018/19 budget.<sup>53</sup> These withdrawals

<sup>37</sup> Source, analyst, London.

<sup>38</sup> Daily Monitor, 13 Jan 2020.

<sup>39</sup> Daily Monitor, 13 Jan 2020.

<sup>40</sup> Daily Monitor, 13 Jan 2020.

<sup>41</sup> Daily Monitor, 13 Jan 2020.

<sup>42</sup> Excerpt from the World Bank's Global Economic Prospect for 2020 Report, quoted by Daily Monitor, 13 Jan 2020.

<sup>43</sup> Reuters, 30 Dec 2019.

<sup>44</sup> Reuters, 30 Dec 2019.

<sup>45</sup> Reuters, 30 Dec 2019.

<sup>46</sup> Reuters, 30 Dec 2019.

<sup>47</sup> Reuters, 30 Dec 2019.

<sup>48</sup> Reuters, 30 Dec 2019.

<sup>49</sup> The Observer, 9 Jan 2020.

<sup>50</sup> The Observer, 9 Jan 2020.

<sup>51</sup> The Observer, 9 Jan 2020.

<sup>52</sup> Finance state minister, David Bahati quoted by The Observer, 9 Jan 2020.

<sup>53</sup> The Observer, 9 Jan 2020.

contravened the **Public Finance Management Act** of 2015.<sup>54</sup> The Act provides that oil revenue only be used for financing infrastructure development projects, and not to finance the national budget.<sup>55</sup>

The considerable debt coupled with complete depletion of oil revenue will have a negative impact on Uganda's economy.<sup>56</sup> The government lacks sufficient internally derived revenue to fund both the national budget and infrastructure development projects, which the World Bank expects to boost economic development. The increased debt will also undercut the projected contribution that oil revenue would have on Uganda's economy when production starts.<sup>57</sup> This puts Uganda at a risk of a debt cycle that will result in the external debt surpassing both its GDP and tax revenue.

### Planner

3 Aug 2020 **Kampala (Uganda)** International Conference on Technology and Management  
 18 Sep 2020 **Kampala (Uganda)** Business Growth Conference  
 2020 **Final Investment Decision** on oil and gas sector  
 2023 **(Uganda)** Uganda general election

### Chronology

17 Jan 2020 **Kampala (Uganda)** *Daily Monitor*. Ministry of foreign affairs writes to the **Kenyan High Commissioner in Kampala** threatening to reconsider its position on the **East African Community Customs Union Protocol** and impose retaliatory taxes after **Kenya** seized its milk products on their market;

17 Jan 2020 **East Africa** *The East African*. **Food and Agriculture Organisation** says swarms of desert locusts have damaged tens of thousands of hectares of land across **East Africa**, which is damaging regional economies and threatening food security;

13 Jan 2020 **Kampala (Uganda)** *Daily Monitor*. The **World Bank Global Economic Prospect** for 2020 places **Uganda** in the category of **sub-Saharan African** countries that will post economic growth in 2020;

13 Jan 2020 **Kampala (Uganda)** *Daily Monitor*. Researchers based at **Uganda's Makerere University** attribute the slow development of Uganda's oil sector to political interference;

9 Jan 2020 **Kampala (Uganda)** *The Observer*. **Uganda's** minister of state for planning, **David Bahati**, says the government has already exhausted finances in the **Petroleum Fund** from financing the national budget;

8 Jan 2020 **Kampala (Uganda)** *The Observer*. **Uganda's** government frees nine **Rwandese** nationals, whom it had kept in detention since 2017 and 2018, as part of steps to reduce tensions with Rwanda's government;

6 Jan 2020 **Kampala (Uganda)** *Associated Press*. **Uganda** police arrest and detain popular independent legislator and musician **Robert Kyagulanyi**, also known as **Bobbi Wine**, to prevent him from holding his first political rally with supporters as he campaigns for the 2021 presidential election;

5 Jan 2020 **Kampala (Uganda)** *BBC*. President **Yoweri Museveni** leads supporters on a six-day, 195-kilometre march through the jungle to commemorate the war that brought his ruling **National**

<sup>54</sup> The Observer, 9 Jan 2020.

<sup>55</sup> The Observer, 9 Jan 2020.

<sup>56</sup> Source, analyst, London

<sup>57</sup> Source, analyst, London

**Resistance Movement (NRM)** party to power;

2 Jan 2020 **Johannesburg (South Africa)** *Reuters*. **South Africa**-based telecommunications company **MTN Group** sells its towers in **Ghana** and **Uganda** as it explores prospects in other markets in **Africa** and the **Middle East**;

30 Dec 2019 **Kampala (Uganda)** *Reuters*. Finance ministry's budget paper reveals that government plans to borrow approximately \$2 billion to fund the 2020/2021 budget, which it expects to increase as president Museveni seeks re-election;

28 Dec 2019 **Kampala (Uganda)** *The Observer*. **Uganda** parliament's annual performance report reveals that the legislature approved over Shs 6 trillion (\$1.6 billion) in loans, which worsened **Uganda's** debt burden;

25 Dec 2019 **Kampala (Uganda)** *Daily Monitor*. **Uganda's** finance ministry reveals that the country experienced a Shs3.4 trillion (\$922m) decline in trade volumes because of political tensions with neighbouring countries;

### About Africa Risk Consulting:

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