

AFRICA RISK CONSULTING

Uganda Monthly Briefing November 2016

Uganda Summary 1 November 2016

Security forces place opposition Forum for Democratic Change (FDC) leader Kizza Besigye under effective house arrest. The prosecution gets additional time to continue investigations in treason case against him. The Bank of Uganda (BoU) (central bank) assumes control of Crane Bank Ltd citing its undercapitalisation. The takeover follows an alleged falling out between Crane Bank owner Sudhir Ruparelia and President Yoweri Museveni (1986- present). A government report projects the initial cost of relaunching national airline Uganda Airlines at \$400m.

Besigye continues to face harassment and legal threats

Security forces on 8 October surrounded the house of opposition **Forum for Democratic Change (FDC)** leader **Kizza Besigye** in **Kasangati** (outside capital **Kampala**) ahead of planned opposition demonstrations that coincided with **Uganda's** national independence day on 9 October.¹ The ruling **National Resistance Movement (NRM)** hopes that targeting Besigye but no other FDC leaders will encourage the fracture of the FDC's leadership. Besigye had returned from spending one month in the **United States** and **Europe** trying to build opposition support within the Ugandan diaspora.² He turned to the diaspora after the government used politically motivated legal threats and periods of house arrest or detention to limit his domestic political platform. Besigye was immediately detained on his arrival at **Entebbe International Airport** on 3 October after large numbers of domestic supporters gathered to celebrate his return.³ While subsequently released, Besigye has remained under effective house arrest.

Besigye still faces outstanding treason charges related to his refusal to recognise President **Yoweri Museveni's** (1986- present) victory in the February presidential election. At a magistrate hearing on 12 October, state attorney **Deborah Itwau** secured an extension for the prosecution investigation into Besigye.⁴ The investigation has already lasted six months, with the government dropping the lesser charges against Besigye in July. The government now has until 16 November to complete its investigation, before Besigye stands trial at the **High Court** during the next available criminal session.⁵ The **Penal Code Act** provides for the death penalty in cases of treason, despite the **Supreme Court** in 2009 declaring all executions unconstitutional.

The government justifies its actions by citing Besigye's continued calls for a nationwide campaign of civil disobedience in response to alleged electoral fraud during the general election. Separating Besigye from the FDC has undermined his support amongst the party's leadership. Notably, neither FDC party president **Mugisha Munta** nor parliamentary opposition leader **Winnie Kizza** attended the celebrations at Entebbe International Airport to mark Besigye's return.⁶ Ahead of internal party elections next year, the FDC is increasingly divided,

*"... between a radical wing loyal to Besigye that wants to hold demonstrations now to secure power. This wing also has the backing of party secretary general **Nandala Mafabi**. The other wing is more patient and wants to put systems in place to challenge Museveni in 2021. This wing*

¹ NTV, 10 Oct 2016.

² East African, 10 Oct 2016.

³ Daily Monitor, 4 Oct 2016.

⁴ www.businessguideafrica.com

⁵ www.businessguideafrica.com

⁶ Daily Monitor, 4 Oct 2016.

is led by party president Mugisha Muntu. The radicals have the upper hand ahead of internal FDC elections in 2017.”⁷

Museveni’s half-brother, **Uganda People’s Defence Force (UPDF)** general **Caleb Akandwanaho** (a.k.a **Salim Saleh**), is leading the NRM strategy to divide the opposition by offering them political offices.⁸ The NRM has offered **Beti Kamy**a (leader of the opposition **Uganda Federal Alliance**) the position of **Kampala City** minister.⁹ Saleh is increasingly influential, and has represented the government in talks with the private sector over a politically motivated bailout (see *ARC Briefing Uganda August 2016*). Saleh has a poor reputation and is linked to illegal mining, questionable security companies, arms deals, and other shady business deals in the **Democratic Republic of the Congo (DRC)** in the late 1990s and early 2000s.¹⁰

“Saleh is at the very centre of power. He is the key power broker, especially in negotiations with the opposition. He is popular with Ugandans and respected in the UPDF. Despite his previous bad reputation, he is actively working to improve his public profile.”¹¹

If Saleh has ambitions to succeed Museveni as president, he may look to secure a political office. Museveni may replace **Inspector General of Police** general **Kale Kayihura** with Saleh.¹² The president is looking to shore up his support within the **Uganda Police Force (UPF)**, which he fears has become too powerful under Kayihura who, like Besigye, has faced politically motivated charges.¹³ Kayihura’s charges related to the alleged torture of opposition supporters.

“The charges are ‘a shot across the bows’ for Kayihura. He became too powerful. Museveni himself became aware of this. Under Kayihura, the UPF is better equipped than ever before. Its budget has grown and grown and you can see from the streets that it has more armoured vehicles than previously. There was concern within senior ranks of the NRM and amongst Museveni advisers that it was becoming a force to be reckoned with. There was also torture in 2009, when many were killed, but Kayihura faced no charges. The difference now is that he faces opposition within the NRM.”¹⁴

Unlike Besigye, Kayihura appears to have learned his lesson and has repeatedly praised Museveni in a series of recent public appearances.¹⁵

Bank of Uganda assumes control of Crane Bank

The **Bank of Uganda (BoU)** (central bank) on 20 October assumed control of **Crane Bank Ltd.**¹⁶ The BoU cited Crane Bank’s lack of capital, suggesting it posed a systemic risk to the financial system.¹⁷ The BoU has removed Crane Bank’s board including effective owner, Ugandan- **Indo/Pakistani**¹⁸ businessman **Sudhir Ruparelia**, a key business ally and “*financier*”¹⁹ of Museveni. The BoU appointed a statutory manager, **Edward Katimbo Mugwanya**, to manage Crane Bank.

There are persistent allegations that Ruparelia represents the business interests of the first family and is involved in “*offshoring their profits*”.²⁰ However, he reportedly fell out with Museveni several

⁷ Source, journalist, Kampala

⁸ Source, journalist, Kampala

⁹ Source, journalist, Kampala

¹⁰ Source, within presidency, Kampala

¹¹ Source, journalist, Kampala

¹² Source, journalist, Kampala

¹³ Source, journalist, Kampala

¹⁴ Source, journalist, Kampala

¹⁵ Daily Monitor, 4 Oct 2016.

¹⁶ East African, 20 Oct 2016.

¹⁷ East African, 20 Oct 2016.

¹⁸ Indian Ocean Newsletter, 27 Jul 1996.

¹⁹ Africa Confidential, 12 Jan 2007.

²⁰ Source, business consultant, Kampala

months ago.²¹ Ruparelia is also reportedly in ill health, and appeared to be transitioning control of his broader **Ruparelia Group** business interests to his children **Rahjiv Ruparelia** and **Meera Ruparelia**.²² However, another view is that Sudhir Ruparelia, having extended private loans to NRM officials during the election campaign, is acting from a position of strength and is intentionally engaging the government in brinkmanship.²³

Crane Bank has struggled commercially in recent years: it recorded a final 3.1 billion Ugandan shillings (US\$) (\$914,469) loss in 2015 compared to a profit of US\$50.6 billion (\$1.49m) in 2014.²⁴ Crane Bank's non-performing loans increased markedly in 2015 from US\$19.3 billion (\$5.7m) to US\$142.3 billion (\$42.1m) indicating a decline in asset quality.²⁵ The BoU added Crane Bank to its watch list in September 2015 due to concerns about capitalisation and, since assuming control, has launched a forensic audit of Crane Bank's financial status.²⁶ There are allegations that Ruparelia has fallen out with senior BoU officials.

"Sudhir is very critical of the BoU and other technocrat managers of the economy, he has said they had failed to manage the economy and he suggested a reduction in taxes to allow people to reduce costs of doing business and consumption, and to increase government expenditure (to make more money available in the market). He also proposed an urgent formation of an economic advisory group (made of practitioners in business) to suggest ways they think the economy could be rescued. Did the criticism strain relations between Crane Bank and the BoU? And did it push the BoU to act in dramatic ways?"²⁷

The BoU has said that Crane Bank will remain open and continue to operate as normal.²⁸

"It is not true that Crane Bank has collapsed. The bank operations are running normally and in all the branches."²⁹

Prior to the BoU intervention, social media messages circulated in Uganda recommending that depositors withdraw their funds from Crane Bank. This resulted in a rush on Crane Bank and the withdrawal of US\$300 billion (\$86.5m).³⁰ Worried about the risk of contagion, the BoU on 19 October issued a statement that it had not sent the messages.³¹ It appears their statement was unsuccessful, and members of the Indian business community in particular continue to withdraw deposits.³²

Since adopting a risk-based supervision approach following the banking crisis of September 1998 and May 1999, the BoU has proved willing to assume control of commercial banks, typically quickly looking to sell their assets and deposits. However, the size of Crane Bank may mean the BoU retains control of it for longer before arranging a sale.³³ Prior to the BoU intervention, there was speculation that pan-African banking group **Atlas Mara Ltd**, owned by Ugandan businessman **Ashish Thakkar** and former **Barclays Plc** managing director **Bob Diamond**, is considering the acquisition of Crane Bank.³⁴ Atlas Mara has been considering a Ugandan acquisition for several months.³⁵ Thakkar maintained a low profile until 2013 when he embarked on a public relations exercise to increase his

²¹ Source, journalist, Kampala

²² Source, anti-corruption investigator, Kampala

²³ Source, business consultant, Kampala

²⁴ The Independent, 16 May 2016.

²⁵ Crane Bank 2015 annual report

²⁶ The Observer, 21 Oct 2016.

²⁷ Source, academic, Kampala

²⁸ East African, 20 Oct 2016.

²⁹ Source, banker, Kampala

³⁰ Source, banker, Kampala

³¹ East African, 20 Oct 2016.

³² Source, business consultant, Kampala

³³ The Observer, 21 Oct 2016.

³⁴ East African, 20 Oct 2016.

³⁵ Source, business consultant, Kampala

profile.³⁶ Observers question whether he has the level of business success that he claims, and say his attempt to “*portray himself in the media as a local boy made good*”³⁷ annoyed Ruparelia, resulting in personal rivalry.³⁸

Crane Bank is reportedly involved in aggressive foreclosure practices. Sudhir Ruparelia “*disappears*”³⁹ on days when significant loans, secured against property, are due for repayment. This is allegedly how the Ruparelia Group has built up its prime real estate holdings in Kampala.⁴⁰

“Defaulted loans were treated as paid once secured property was foreclosed but instead of being sold and the proceeds banked, the titles were simply transferred to a related real estate company.”⁴¹

These business practices have resulted in a reluctance to conduct business with Crane Bank.⁴² They also contributed to the BoU intervention.

*“Crane Bank closed because of the credibility of Sudhir Ruparelia. For example branches that had been built or refurbished and fitted out using depositors' funds were not registered in the names of Crane Bank but of a related company called **Crane Management Services Ltd**. The BoU asked Ruparelia to reverse this policy, but he raised some technical arguments about restriction of land ownership by foreigners. The BoU responded by asking for branch land values to be removed from the BoU's balance sheet - further impairing capital and increasing the amount shareholders would need to pay to meet with capital adequacy requirements. When a rush on Crane Bank forced Ruparelia to turn to the BoU for liquidity, the BoU demanded security. Though he offered the titles to the branches, the BoU wanted liquid and unencumbered security because the branches, being capital, are like security for depositors. Taking these as security would effectively put the BoU's interests against those of the depositors that it's mandated to protect.”⁴³*

The generally uncompetitive and low-risk appetite banking sector as a whole is under pressure due to the broader poor performance of the economy.

*“Several banks are having the same kind of issues and I expect at least three more banks to be taken over in the next few months. The banking sector is in a crisis, which is a prelude to a major financial crisis if the trends continue. There is a steep rise in non-performing loans, which do not only affect the revenue projections of the banks but also eat into deposits of existing clients which are used to lend. This stems from what is going on with the borrowers and their businesses/work within the economy. The war in **South Sudan** has grossly affected dependable revenue inflows for the last three years. Additionally, an [unintended consequence] of the government's anti-corruption investigations is to limit the amount of money in circulation and has slowed down the real estate sector since 2013.”⁴⁴*

Relaunching Uganda Airlines to cost \$400m

The government has concluded that relaunching national airline **Uganda Airlines** will require an initial investment of USh1.4 trillion (\$400m).⁴⁵ Improving transport links is a central part of the government's medium-term growth strategy as lack of competition has increased the cost of air travel, currently a significant business barrier. The **Uganda Development Corp, Civil Aviation Authority (CAA)** and **National Planning Authority** submitted the report to the cabinet in

³⁶ Source, business consultant, Kampala

³⁷ Source, business consultant, Kampala

³⁸ Source, business consultant, Kampala

³⁹ Source, senior private sector executive, Kampala

⁴⁰ Source, journalist, Kampala

⁴¹ Source, banker, Kampala

⁴² Source, senior private sector executive, Kampala

⁴³ Source, economist, Kampala

⁴⁴ Source, academic, Kampala

⁴⁵ Daily Monitor, 18 Oct 2016.

September. The agencies began the report in April 2015. The report recommends that Uganda Airlines purchase aircraft rather than pay annual leasing fees.⁴⁶ The report estimates that leasing fees would cost \$678m over a 15-year period and limit Uganda Airlines' capacity to determine its own routes and corporate strategy.⁴⁷ The report recommends instead the government secure US\$1.1 trillion (\$331m) in international loans to finance the purchase of six aircraft, two long-haul and four short-haul.⁴⁸ The report recommends the government borrow at 5% over seven to 10 years, further expanding its debt portfolio.⁴⁹ The report says that the **Preferential Trade Area Bank (PTA Bank)** has already indicated an interest in financing aircraft purchases. Uganda Airlines began operating in 1977, but was liquidated in 2001 with debts of \$6m due to financial mismanagement, frequent cancellations, poor service, and after a series of unsuccessful privatisation attempts. Museveni included the re-establishment of Uganda Airlines in his 2016/2017 presidential directives.

This is part of a broader commitment to rehabilitating the transport sector, including securing \$200m in August 2015 from the **Export Import Bank of China (China Exim)** to rehabilitate Entebbe International Airport.⁵⁰ The expansion will involve the construction of additional aircraft bays and commercial aircraft movements and cargo volumes. The government also hopes a new flag carrier will increase competition to lower prices. In October 2015, **United Kingdom (UK)**-based **British Airways (BA)** suspended between Entebbe International Airport and **London Heathrow** claiming the route was not commercially viable.⁵¹ This followed the closure of privately owned **Air Uganda** in August 2014. The CAA withdrew Air Uganda's air operator certificate in June 2014, leading to temporary logistical challenges for the regional transport of freight or personnel.⁵² The withdrawal of the licences followed a scheduled **International Civil Aviation Organisation (ICAO)** audit of the CAA. The ICAO audit failed the CAA, highlighting shortcomings in its oversight and regulatory capacities. While the ICAO audit did not survey the airlines that operate under the CAA's supervision, it questioned the CAA's authority to award certificates. The CAA responded and withdrew air operator certificates from all Ugandan registered airlines that fly internationally. Air Uganda warned that reimbursing clients and meeting fixed costs during the suspension would make it financially unmanageable to resume services without new investment.

Implications

Besigye retains popular support amongst opposition supporters. However, his political base is greatly diminished. His continued role as the opposition figurehead is detrimental to the emergence of a new generation of opposition politicians able to offer meaningful policy alternatives to the NRM. While the 2017 FDC elections may usher in new leaders, it is unlikely they will develop a credible electoral threat to the NRM prior to the 2021 elections.

The alleged falling out between Museveni and Sudhir Ruparelia prior to the BoU assuming control of Crane Bank highlights the risk to investors of conducting business with politically exposed persons in Uganda. This risk will increase. Political and media scrutiny over the business practices of the Museveni first family will intensify ahead of the Museveni's eventual succession and either side of the 2021 election.

Uganda's poor international transport connections are a significant bottleneck for growth. However, the commercial value of resurrecting Uganda Airlines is unclear. It will face regional competition from both established airlines, including **Kenya Airways Ltd** and **Ethiopian Airlines Enterprise**, and more recent startups. It is notoriously difficult to make a profit in the airline sector and there is a risk

⁴⁶ Daily Monitor, 18 Oct 2016.

⁴⁷ Daily Monitor, 18 Oct 2016.

⁴⁸ Daily Monitor, 18 Oct 2016.

⁴⁹ Daily Monitor, 18 Oct 2016.

⁵⁰ www.parliament.go.ug

⁵¹ Africa Review, 24 Jul 2015.

⁵² East African, 19 Jul 2014.

that Uganda Airlines will depend upon continued government cash injections to the detriment of its capital investment programmes.

About Africa Risk Consulting:

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

ARC's core consulting services include integrity due diligence and corporate investigations, political advisory and country assessments, opportunity monitoring and reputation risk management. Most relevant to private equity firms is ARC's integrity due diligence and corporate investigations capability. Specifically, ARC offers pre-deal integrity checks to highlight red flags before negotiations start; full detailed multi-jurisdictional reputation due diligence; and supplier and senior hire vetting and repeat due diligence for compliance programmes. ARC is unique in that it offers a 10-day delivery for a routine integrity due diligence. ARC also offers a suite of corporate investigations services from immediate investigation, evidence gathering, e-discovery, forensic accounting and whistleblower support on one end to crisis media management and regular monitoring on the other.

www.africariskconsulting.com

About ARC Briefing:

ARC Briefing is ARC's essential online business information service.

Companies at any stage in their Africa expansion, whether building or communicating an Africa strategy, investing directly, expanding current operations, financing other investors, doing the legal leg-work or researching the Africa growth trend, need ARC Briefing.

ARC Briefing is an online information service keeping you:

- Up to date with Country Chronologies of business-critical events
- In the know via Country Briefings on political, economic, business and operating trends. Written in-country, ARC experts analyse and comment
- Ahead with Country Planner which details future elections, budgets, regulatory changes etc.

www.briefing.africariskconsulting.com

Getting in touch

Please contact us by email info@africariskconsulting.com or call + 44 (0) 20 7078 4080

Follow us on Twitter: [@ARCBriefing](https://twitter.com/ARCBriefing)