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President Yoweri Museveni (1986-present) puts himself at the centre of corruption investigations into government officials. Museveni announces the arrest of two finance ministry officials, and his office claims to order an operation that leads to the arrest of labour, employment and industrial relations minister Herbert Kabafunzaki. The Bank of Uganda (BoU) (central bank) closes foreign exchange bureaus owned by businessman Sudhir Ruparelia. The closure comes after Ruparelia lost Crane Bank Ltd following an alleged falling out with Museveni. The Uganda People's Defence Force (UPDF) withdraws from the Central African Republic (CAR), effectively ending Uganda's search for Lord's Resistance Army (LRA) leader Joseph Kony.

Museveni puts himself at centre of corruption investigations

President **Yoweri Museveni** (1986-present) has put himself at the centre of two prominent anti-corruption investigations. Museveni's personal involvement is unprecedented and intended to reassure the public, international donors and investors alike that the government is serious about curbing corruption. In the first case, Museveni announced on social media the arrest of two senior finance ministry officials for alleged corruption on 29 March.¹ Security officials raided the finance ministry and detained the two officials on 28 March.² Museveni said inspector general of police General **Kale Kayihura** has personally briefed him on the case.³ Museveni said the arrests were part of the government's **Kisanja Hakuna Mchezo** (term of no joking) campaign against corruption.⁴ The largely undefined campaign has not improved the record of **Uganda's** anti-corruption agencies, which lack the resources and political backing to significantly address corruption.

Museveni did not initially identify the finance ministry officials or provide details about the investors from whom they allegedly accepted bribes.⁵ However, their identities subsequently became apparent: finance ministry principal finance officer **John Charles Ogol** and senior economist **Geoffrey Turyamuhika** appeared before the **Anti-Corruption Court** on 7 April.⁶ Ogol and Turyamuhika allegedly accepted a \$300,000 bribe to expedite documentation for the finance and construction of electricity infrastructure for the Guangzhou **Dongsong Energy Group (U) Ltd** power project in **Tororo District**.⁷

In a separate case, security forces arrested labour, employment and industrial relations minister **Herbert Kabafunzaki** for allegedly demanding a bribe on 8 April.⁸ The government appears to be cracking down on corruption – a persistent complaint of donors, investors and the public. Kabafunzaki is the member of parliament (MP) for **Rukiga County (Kbale District)**. The **Uganda Police Force (UPF)** and **Special Forces Command (SFC)** arrested Kabafunzaki and his cousin **Brian Mugabo** in an operation at the **Serena Hotel in Kampala**.⁹ Kabafunzaki has allegedly demanded a

¹ East African, 29 Mar 2017.

² East African, 29 Mar 2017.

³ East African, 29 Mar 2017.

⁴ East African, 29 Mar 2017.

⁵ East African, 29 Mar 2017.

⁶ The Monitor, 9 Apr 2017.

⁷ The Monitor, 9 Apr 2017.

⁸ New Vision, 9 Apr 2017.

⁹ New Vision, 9 Apr 2017.

bribe from **Aya Group** chairman **Muhammad Hamid Muhammad**.¹⁰ The Aya Group owns the **Kampala Hilton Hotel**.¹¹ An employee at the Hilton Hotel publically accused Hamid of sexual harassment and unfair dismissal in a media interview in March.¹² In response to the allegations, Kabafunzaki visited the Hilton Hotel on 6 April to ensure the Aya Group was respecting labour rights. Following the visit, Kabafunzaki allegedly, through Mugabo, demanded 30m Ugandan shillings (US\$8,298) to defend Aya Group's reputation in the media.¹³ Hamid reportedly informed the office of Museveni, which ordered the sting operation.¹⁴ A presidential spokesman said,

*"The message is clear, the fight against corruption has been taken to a new high and there are no sacred cows. Once you're involved, you'll be arrested irrespective of position. Corrupt government officials have been put on notice."*¹⁵

However, the arrest was met with popular cynicism.

*"To me I think it's too early to celebrate because Kabafunzaki is still only a suspect. A lot of allegations of setup are flying around and the minister is denying, so until he is cleared or convicted, it might be too early to pass a conclusion or judgment on the seriousness of government in fighting corruption at the top."*¹⁶

Kabafunzaki is a member of the ruling **National Resistance Movement (NRM)**. He has served as state labour, employment and industrial relations minister since June 2016.¹⁷ Since his appointment, he has pledged to crack down on investors that fail to respect labour rights.¹⁸ He has conducted a number of surprise inspections on commercial sites owned by foreign investors.¹⁹ There are allegations that Kabafunzaki was using Museveni's name to secure payments from foreign investors.²⁰ The popular inference is that Museveni tolerates corrupt officials, but not the misuse of his name.²¹

*"Kabafunzaki's arrest is not part of a government effort to fight corruption but rather a personal initiative of the president. It's rumoured that Museveni got annoyed because the minister was using his name to con investors of money, which is tantamount to impersonation. The government must be seen to be using its anti-corruption agencies effectively and with the same resolve for all government officials implicated in corruption, otherwise the country is still watching and we cannot give [the government] any credit yet."*²²

The cynicism about the arrest of Kabafunzaki is part of broader scepticism about government efforts to curb corruption.

*"Corruption is the worst in **East Africa**. There is no will, nor capacity, within the **Inspector General of Government** to investigate or prosecute cases."*²³

In March, non-governmental organisation (NGO) **Transparency International** published a survey showing that only 7% of Ugandan citizens report corruption compared to an average of 17% across East Africa.²⁴ A total of 40.7% of Ugandans reported witnessing bribery, compared to 22% across East

¹⁰ New Vision, 9 Apr 2017.

¹¹ New Vision, 9 Apr 2017.

¹² New Vision, 9 Apr 2017.

¹³ New Vision, 9 Apr 2017.

¹⁴ New Vision, 9 Apr 2017.

¹⁵ New Vision, 9 Apr 2017.

¹⁶ Source, journalist with state-owned newspaper, Kampala

¹⁷ New Vision, 9 Apr 2017.

¹⁸ Independent, 9 Apr 2017.

¹⁹ Independent, 9 Apr 2017.

²⁰ Source, civil society leader, Kampala

²¹ Source, civil society leader, Kampala

²² Source, civil society leader, Kampala

²³ Source, anti-corruption investigator, Kampala

²⁴ www.transparency.org.uk

Africa.²⁵ This has led to a widely held belief that there is no political appetite to meaningfully address corruption.

*"[The arrest of Kabafunzaki] was just a show off, in fact a media stunt. That case still needs a lot of investigation according to the reports we read. They have to prove that the whole thing was not stage managed because as far as I know corruption will never end in Museveni's government. The corrupt currently occupy the highest offices in the land and the Mzee [Kiswahili word for 'old man'] are thieves and Museveni can't do away with them. Corruption is now the heartbeat of the system. It won't end anytime soon."*²⁶

Meaningful investigations and prosecutions of corrupt government officials are extremely rare, which could foster impunity.

*"How do you get tough by arresting very small fish like Kabafunzaki? We have serious cases where people have stolen state resources but they have been protected. If government wants us to believe that they are serious on corruption they should ask government officials implicated in numerous corruption scandals to step aside until they are cleared."*²⁷

Museveni's direct involvement is unlikely to mark a renewed commitment to rooting out corruption. It additionally raises questions about the investigation's independence, and the risk of political interference in both these and future investigations. Addressing corruption in a meaningful way will require continued political will and financing to prove effective. Institutional corruption will continue to hollow out the capacity of Uganda's ministries, departments and agencies, while posing risks for investors.

Ruparelia loses foreign exchange bureaus

The **Bank of Uganda (BoU)** (central bank) closed foreign exchange bureaus owned by businessman **Sudhir Ruparelia**, a former key business ally and "*financier*"²⁸ of Museveni, on 13 April.²⁹ Since Ruparelia fell out with Museveni in mid-2016, the BoU assumed control of his **Crane Bank Ltd** in October 2016 and has now closed down his foreign exchange business, highlighting the dangers of doing business with politically exposed persons in Uganda. There are persistent allegations that Ruparelia represented the business interests of the first family and is involved in "*offshoring their profits*".³⁰ The affected bureaus include **Crane Forex Bureau Ltd**, **Crane Forex Bureau (Kampala Road) Ltd**, **Karibu Forex Bureau Ltd** and **Redfox Bureau De Change Ltd**.³¹ Foreign exchange bureaus need to apply annually to the BoU to renew their licences. The BoU rejected Ruparelia's foreign exchange bureaus' most recent applications due to concerns about the "*fitness and probity*"³² of their management and shareholders. Criticism of Ruparelia's business practices is long-standing, but his close links to Museveni appeared to offer him a degree of protection.³³ Under Ruparelia's ownership, Crane Bank developed a reputation for aggressive foreclosure practices. Sudhir Ruparelia "*disappeared*"³⁴ on days when significant loans were due for repayment, resulting in a default. There were persistent allegations that Ruparelia used Crane Bank foreclosures to secure prime Kampala real estate then owned or managed by other companies within his **Ruparelia Group**.³⁵ Following

²⁵ www.transparency.org.uk

²⁶ Source, politician, **Soroti**

²⁷ Source, local government official, Kampala

²⁸ Africa Confidential, 12 Jan 2007.

²⁹ Daily Monitor, 13 Apr 2017.

³⁰ Source, business consultant, Kampala

³¹ Daily Monitor, 13 Apr 2017.

³² Daily Monitor, 13 Apr 2017.

³³ Source, journalist, Kampala

³⁴ Source, senior private sector executive, Kampala

³⁵ Source, journalist, Kampala

BoU's intervention in Crane Bank, a forensic audit has reportedly found that Crane Bank managers engaged in insider lending, while unduly influencing its own auditors to cover up mismanagement.³⁶

The BoU was reportedly also concerned about the risk of money laundering through Ruparelia's foreign exchange bureaus.³⁷ Ugandan authorities had previously investigated allegations of money laundering by senior managers at Crane Bank.³⁸ The Ugandan government is under increased international pressure to improve its anti-money laundering (AML) and counter terrorism financing (CTF) framework. In its annual banking sector supervision report, the BoU warned in 2016 that commercial banks, foreign exchange bureaus and remittance service providers were inadequately reporting suspect transactions, resulting in a high risk of criminal transactions.³⁹ In March, parliament passed amendments to the **2013 Anti-Money Laundering Act** following **World Bank, International Monetary Fund** and **East and Southern Africa Anti-money Laundering Group (ESAAMLG)** criticism that the legislation failed to meet international standards.⁴⁰ The government is tightening its regulations to avoid a **Financial Action Task Force (FATF)** 'blacklisting' (see *ARC Briefing Uganda March 2017*).

The BoU's intervention in Crane Bank and subsequent transfer of its assets and liabilities to the **Development Finance Co of Uganda Bank Ltd (DFCU)** in January did not result, as feared, in increased instability in Uganda's generally uncompetitive and low-risk appetite banking sector.⁴¹ DFCU is a wholly owned subsidiary of **Uganda Securities Exchange**-listed **Development Finance Company of Uganda Group**. Uganda-based banks are reporting increased profits, boosting confidence in the Ugandan banking sector, which the poor commercial environment undermined across 2016. **Standard Chartered Bank Uganda Ltd** published results on 7 April showing a 300% increase in profit in 2016.⁴² Standard Chartered's pre-tax profit increased from US\$ 28 billion (\$7.74m) in 2015 to US\$ 112 billion (\$30.9m) in 2016.⁴³ The increase in profitability was largely due to an improvement in Standard Chartered's lending portfolio. More conservative lending meant Standard Chartered's loan book decreased 7% to US\$ 1.2 trillion (\$331.5m).⁴⁴ This strategy meant Standard Chartered was able to reduce the buffer required to protect against bad debt 46% from US\$ 116.6 billion (\$32.2m) to US\$ 67 billion (\$18.5m).⁴⁵ However, Standard Chartered still has a high non-performing loan ratio of 8.9%, up from 8.6% in 2015.⁴⁶ The average in the Ugandan banking sector is approximately 8%.

Ruparelia's loss of business interests 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 Museveni's eventual succession and either side of the 2021 election. Investors will welcome Standard Chartered Uganda's results as indicative of an increasingly resilient banking sector.

UPDF withdraws from Central African Republic

The government confirmed the withdrawal of the **Uganda People's Defence Force (UPDF)** from the **Central African Republic (CAR)** on 19 April.⁴⁷ The withdrawal highlights Uganda's shifting regional security concerns, which now focus on **Somalia** and **South Sudan**. The UPDF was first deployed in the CAR in 2010 to detain **Joseph Kony**, leader of the **Lord's Resistance Army (LRA)** that led an

³⁶ The Observer, 14 Apr 2017.

³⁷ The Observer, 17 Apr 2017.

³⁸ Source, UPF officer, Kampala

³⁹ BoU annual report 2016.

⁴⁰ Daily Monitor, 16 Mar 2017.

⁴¹ Daily Monitor, 27 Jan 2017.

⁴² The Monitor, 7 Apr 2017.

⁴³ The Monitor, 7 Apr 2017.

⁴⁴ The Monitor, 7 Apr 2017.

⁴⁵ The Monitor, 7 Apr 2017.

⁴⁶ The Monitor, 7 Apr 2017.

⁴⁷ Daily Monitor, 19 Apr 2017.

insurgency in northern Uganda against Museveni between 1987 and 2006. There is an outstanding 2005 **International Criminal Court (ICC)** warrant against Kony.

The LRA is no longer the threat it once was. Key commanders are either on trial at the ICC (**Dominic Ongwen**, surrendered in January 2015),⁴⁸ dead (**Okot Odyambo**, killed in 2013 or 2014)⁴⁹ or have surrendered (**Michael Omona**, surrendered in March 2017).⁵⁰ The number of LRA fighters has decreased from approximately 3,000 to fewer than 100.⁵¹ Military pressure and a lack of support mean LRA operations are largely confined to the remote **Kafia Kingi** border region at the intersection of the CAR, **Sudan** and South Sudan. While the group carries out intermittent attacks, it has not carried out a significant attack since 2010, and appears increasingly involved in local banditry.⁵² There was, however, an increase in LRA activities in 2016, when the group abducted 722 people and killed 21, compared to 603 and 11 respectively in 2015.⁵³ The UPDF said the withdrawal of its 1,500 troops and suspension of its **Operation Observant Compass** is,

“premised on the realisation that the mission to neutralise the LRA has now been successfully achieved. The LRA’s capacity and means of making war against Uganda have been degraded.”⁵⁴

The **US Africa Command (US Africom)** confirmed on 29 March that it has withdrawn its special operation forces, serving as advisers to the **African Union Regional Task Force** against the LRA since 2011. US Africom said at the time that *“Kony’s not an issue.... He’s irrelevant... this thing is coming to an end.”⁵⁵* While the **United Nations (UN) Multidimensional Integrated Stabilisation Mission in the Central African Republic (MINUSCA)**– of which Uganda is not a contributing member – remains in the CAR, analysts have cautioned that the LRA may look to take advantage of any subsequent security vacuum.⁵⁶ An internal UN memo raises similar concerns describing the UPDF withdrawal as a *“significant setback”⁵⁷* to efforts to combat the LRA and will result in a security vacuum that UN forces in the region *“will be unable to fill with its current capacity.”⁵⁸*

The withdrawal of the UPDF is likely to result in a spike of LRA activity in the CAR. However, with South Sudan and Somalia more pressing priorities for the government, the UN rather than Uganda will need to fill the security vacuum. Under the most likely scenario, Uganda will look to bolster its reputation as a significant regional security actor by contributing to the UN mission.

⁴⁸ www.icc-cpi

⁴⁹ New Vision, 2 Feb 2015.

⁵⁰ New Vision, 30 Mar 2017.

⁵¹ Washington Post, 22 Apr 2017.

⁵² Washington Post, 22 Apr 2017.

⁵³ www.foreignpolicy.com

⁵⁴ Sudan Tribune, 20 Apr 2017.

⁵⁵ www.defense.gov

⁵⁶ Washington Post, 22 Apr 2017.

⁵⁷ New York Times, 20 Apr 2017.

⁵⁸ New York Times, 20 Apr 2017.

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