UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT

REPORT ON THE IMPLEMENTATION OF THE INVESTMENT POLICY REVIEW

UGANDA

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Abbreviations

BIT	Bilateral investment treaty
BOO	Build operate own
BoU	Bank of Uganda
CAA	Civil Aviation Authority
DTT	Double taxation treaty
EAC	East African Community
EPZ	Export processing zone
ERA	Electricity Regulatory Authority
FDI	Foreign direct investment
ICAO	International Civil Aviation Organization
ICT	Information and communication technologies
IFC	International Finance Corporation
IPP	Independent power producer
IPR	Investment Policy Review
JBIC	Japan Bank for International Cooperation
KIBP	Kampala International Business Park
KVA	Kilovolt-ampere
Kwh	Kilowatt hour
MW	Mega watt
NIC	National Insurance Corporation
NPL	Non-performing loans
NWSC	National Water and Sewerage Corporation
PIRT	Presidential Investors Round Table
PPP	Power purchase agreement
RVR	Rift Valley Railways
UCB	Uganda Commercial Bank
UEB	Uganda Electricity Board
UEDCL	Uganda Electricity Distribution Company Ltd
UEGCL	Uganda Electricity Generation Company Ltd
UETCL	Uganda Electricity Transmission Company Ltd
UIA	Uganda Investment Authority
UIC	Uganda Insurance Commission
UNCTAD	United Nations Conference on Trade and Development
URA	Uganda Revenue Authority
USE	Uganda Securities Exchange
VAT	Value added tax

Report on the Implementation of the Investment Policy Review of Uganda

1. Introduction

The Investment Policy Review (IPR) of Uganda was published in 2000. It formulated recommendations on how to improve Uganda's investment framework, investment promotion efforts and strategies to attract and benefit from foreign direct investment (FDI). It spelled out a "Big Push" strategy of investment promotion requiring a dramatic and sustained set of actions, arguing that minor adjustments would yield mediocre results.

In 2005, UNCTAD also prepared a Blue Book on best practice in investment promotion and facilitation, with the financial support of the Japan Bank for International Cooperation (JBIC). The Blue Book suggested 10 measures to be implemented over a period of 12 months and intended to move Uganda towards best practice in investment promotion and facilitation. This initiative was part of UNCTAD's technical assistance to Uganda in the context of the IPR.

In early 2006 the Government of Uganda invited UNCTAD to assess the extent to which IPR recommendations had been implemented. A mission to Uganda took place in June 2006 and the findings are set out in the present report.[1] This report was made possible through the financial support of the Government of Italy. It focuses mainly on the implementation status of the recommendations of the IPR and touches briefly upon the 10 measures suggested in the Blue Book

2. Summary of findings

Policymakers in Uganda should be credited with engaging in a focused investment policy reform agenda over the period 2000–2006. Subsequent to the reforms, average annual FDI inflows rose to $204 million in 2001-2005 from $127 million in 1996- 2000. The reform implementation record is good in general, but constraints and bottlenecks in key areas persist, and the implementation of certain long-planned reforms has been significantly

[1] This report was prepared by Quentin Dupriez and Gregory Smith under the direction of Lena Chia and Khalil Hamdani.

slower than expected. In summary, the key findings are as follows:

- The majority of **legal and regulatory changes** recommended in the IPR have been either partly or fully implemented. This includes foreign exchange regulations and taxation, where expectations have been fully met. A crucial exception, however, is the Investment Act, whose modernization has long been debated but not implemented so far. The Uganda Investment Authority (UIA) should also be commended for easing the entry of investors since 2000, and the Uganda Revenue Authority (URA) for engaging in a positive reform agenda.
- The record in the **utilities, infrastructure and financial services** sectors is strong in terms of regulatory reforms, but mixed in terms of quality and availability of services. Excellent progress has been made in the banking sector, and there have been significant improvements in the regulation of airport operations and water management. Railway operations were recently concessioned to a private operator, with significant obligations to upgrade the infrastructure. The electricity sector has been reorganized (albeit not wholly along the lines of the recommendation of the IPR), with the concessioning of generation and distribution to strategic private operators within a modernized regulatory framework. Investments in new generation capacity did not take place as recommended, however, and the drought of recent years and the dependence on hydropower have led to a severe shortage in generation capacity and frequent load sheddings, which are seriously affecting investors across all sectors.
- With regard to **investment promotion**, Uganda adopted the “Big Push” strategy recommended in the IPR. The eight key actions of the strategy have all been partly, and sometimes fully, implemented. Delays in implementation have at times occurred, however, as some measures have been initiated only recently. The Presidential Investors Roundtable (PIRT) was set up in 2004 to coordinate efforts under the Big Push strategy. Efforts have been undertaken also to implement the “Team Uganda” approach, whereby all public institutions play their role in facilitating investment. Client charters were prepared for 23 organizations that deal regularly with investors.
- Among the 10 measures of the **Blue Book**, only one has been fully implemented within the expected time frame of one year. Partial progress has been made for most of the rest, while no genuine

action has been taken in a couple of instances.

While the overall implementation record is good, a recurrent weakness in Uganda is the relatively slow pace in moving from conception to realization. A number of key reforms have been rigorously discussed and planned over the past few years, but have not yet reached completion. These include the modernization of the Investment Act, the development of the Kampala International Business Park (KIBP), improvements in the railway system and the hydroelectric projects. As a result, major infrastructure bottlenecks —international land transport and power in particular— remain key obstacles to investment.

Tables I, II and III at the end of the report provide a checklist of implementation for each of the recommendations made in the IPR. Quick reference can be made to the extent to which each reform has been carried out.

3. Implementation of recommendations on the investment framework

3.1. FDI entry and treatment

The **Investment Act** of 1991 continues to govern local and foreign investment despite long-established plans to overhaul it. The IPR recommended that the Act be revised in order to liberalize the relatively restrictive and control-oriented regime and make it consistent with more liberal provisions in the Constitution and other laws and with actual practice. Specifically, it recommended that: (1) the requirement to license foreign investments with the UIA be abolished and replaced by voluntary registration; (2) the requirement to register the terms and conditions of technology agreements with the UIA be abolished; and (3) the UIA be refocused towards investment promotion.

Although the Act has not been revised, the above-mentioned and other restrictive provisions have not been implemented for the past decade, and the investment environment has been much more liberal than a strict reading of the Act would lead one to believe. In particular, licensing with the UIA has essentially become a voluntary registration process, and all sectors of the economy are open to FDI without restriction.

The Government is fully aware of the need to revise the Investment Act and a Bill for that purpose has long been under discussion. The Ministry of

Finance, Planning and Economic Development recently prepared a revised draft after wide consultation with stakeholders. The draft is pending approval by Cabinet and will then need to be adopted by Parliament. It is unlikely that the process will be completed very soon, but if and when approved, the provisions of the Bill would be in line with most of the recommendations proposed in the IPR. In particular:

- All sectors of the economy are explicitly open to FDI, but Cabinet has the power to restrict FDI in specific sectors in the future. This is in contrast with the current Act, which provides for a restriction on FDI in farming, although it has not been enforced.
- The licensing requirement is to be replaced by a registration requirement for all investments in excess of $50,000 (domestic or foreign).
- The registration of technology agreements and monitoring of their terms and conditions are removed.
- Other provisions are amended or dropped to ensure consistency with the Constitution and other laws. This includes the lifting of restrictions on foreign ownership of agricultural land or access to domestic credit, and more favourable provisions regarding expropriations.
- Fiscal incentives are removed from the Act, as they are provided for in the Income Tax Act.
- Access to land is facilitated through the UIA as the operator of soon-to-be created business parks (see section 3.3).

The IPR recommended that Uganda conclude new bilateral investment treaties (BITs) and double taxation treaties (DTTs) in order to increase confidence among investors. While a number of such treaties have been signed and ratified in the past six years, the pace has been slow (see section 5).

3.2. FDI establishment and operation

The UIA has made significant efforts to ease **FDI establishment** over the past six years, and investors generally value its facilitation services. Access to facilitation services involves a simple procedure, and licences are typically delivered within three days as the UIA no longer conducts field visits or due diligence. The law does not provide for a minimum capital requirement for eligibility for licences, but the UIA has applied a “silent”

threshold of $100,000 for foreign investors and $50,000 for local investors, essentially in order to avoid an excessive number of applications.

Uganda opted out of the one-stop-shop concept for the UIA and chose instead to implement a "Team Uganda" approach. Under "Team Uganda", each agency dealing with investors in one way or another is encouraged to play its role in facilitating investment. A number of agencies have prepared client charters that specify the level of service that investors are entitled to expect. While client charters and the "Team Uganda" approach have eased establishment procedures, some issues and weaknesses regarding implementation have arisen (see section 5). Under "Team Uganda", the UIA has also created a core network of agencies dealing with investors.[2] The UIA's facilitation services are stronger with respect to those agencies, and it has prepared a "Team Uganda" folder that offers investors all key forms.

3.3. General measures

Foreign exchange transactions were fully liberalized by administrative decision of the Bank of Uganda in 1997. As recommended in the IPR, the liberalization was legislated in 2004 under the Foreign Exchange Act, which allows the imposition of temporary restrictions by the Bank of Uganda only in the case of a severe deterioration of the balance of payments. Such restrictions are allowed for at most three months and can be extended for another three months only with the written consent of the Minister of Finance. Any restriction beyond that cumulative period of six months requires parliamentary approval. Uganda has thus formalized one of the most liberal foreign exchange regimes in Africa, while at the same time limiting volatility in the exchange rate against the dollar.[3]

The IPR did not recommend significant changes in the **tax regime,** as it had been modernized in the mid- and late-1990s. The Government has maintained a very high degree of stability in the regime itself (income tax rates, depreciation allowances and incentives) and has focused its attention on improving tax administration. The reforms led to a major restructuring of the Uganda Revenue Authority (URA) in late 2004 and have significantly improved the administration of the tax regime, as confirmed by

[2] Uganda Revenue Authority, the Immigration Department, the Uganda Registration Services Bureau, the Uganda Land Commission and the National Environment Management Authority.

[3] The Uganda shilling depreciated relatively steadily from USh 1,500/$1 in early 2000 to USh 1,900/$1 in late 2006.

the investor community. The key reforms are as follows:

- The URA drafted a client charter in 2002 that defines the rights and obligations of the taxpayer. Among the key rights are (1) equity and fairness; (2) facilitation of tax compliance (access to clear and timely information, responding to inquiries); and (3) processing of all refunds within the time limits prescribed by law. Investors' obligations, in turn, are defined mostly in terms of registration, filing, payments and cooperation with the URA.
- The URA has made significant efforts to provide up-to-date information to taxpayers through its website.[4] All current tax laws, regulations and forms are available online, together with a number of explanatory guides.
- Tax collection operations at the URA were restructured in December 2004 around the domestic taxes and the customs and excise departments. This allows investors to deal with a single department for all their domestic tax issues and has improved communication.
- The URA created a unit within the domestic taxes department to take care of large taxpayers. A little over 300 investors are classified as "large" and receive fast-track treatment for VAT refunds. Under the fast-track regime, VAT refunds are processed within a week and comprehensive audits are conducted at a later stage. Large taxpayers are also subject to closer scrutiny and annual audits.
- The URA has made more extensive use of electronic means of payments, including for its refunds, which has allowed shorter transaction times.

These administrative changes have clearly been beneficial and are generally commended by investors. It nevertheless appears that the time required for processing VAT refunds can still vary significantly, and many large investors would like to have annual audits conducted more rapidly.

The IPR did not make specific recommendations in terms of **customs duties and administration**. In July 2000, however, Uganda joined the East African Community (EAC) as a founding member.[5] The EAC aims

[4] www.ugrevenue.com.

[5] The first East African Community was created in 1967, but was dissolved in 1977. The current EAC Treaty was signed between Kenya, Uganda and the United Republic of Tanzania in November 1999 and entered into force in July 2000.

to foster economic and political cooperation in a large number of areas, including trade and investment. A customs union was put in place in January 2005, and the three countries are putting in place programmes to facilitate transport within the region, as recommended in the IPR (see section 4).

Uganda reformed **land ownership** rules for foreigners soon before the IPR, under the Constitution (1995) and the Land Act (1998). Under the reformed regime, foreigners are restricted to owning land under leasehold titles of up to 99 years, including agricultural land. The Investment Act, which precludes foreign ownership of land for agricultural purposes, still needs to be reconciled with the reformed regime.[6] The Investment Bill (section 3.1), when and if adopted, will address that issue.

The IPR highlighted the importance of ensuring a smooth transition from freehold titles to leasehold titles for existing foreign investors. The transition has indeed happened without significant problems. Under the new regime, foreign investors are typically granted five-year leases that are automatically transformed into 49- or 99-year leases if the land is used for the stated purpose. This provision is used to avoid purely speculative land deals.

Uganda has still not been able to reconcile the legal provisions of the Constitution and the Land Act with those of the Investment Act, which restrict foreign ownership of agricultural land. The reconciliation should be effective when the amended Investment Act is approved (see section 3.1). In addition to general access to land, the IPR recommended the creation of multi-facility economic zones, which would provide serviced land to investors. Progress towards the creation of such zones has been slow, but has picked up speed in recent months (see section 5).

4. Implementation of recommendations on utilities, infrastructure and financial services

4.1. Utilities

The Government has introduced wide-ranging regulatory reforms in the **power sector** during the past six years. However, the availability of electricity is again one of the most severe problems for investors.

[6] The revised land ownership regime effectively prevails over the provisions of the Investment Act, which means that foreign investors are able to lease agricultural land and invest in crop production.

A prolonged drought has sharply reduced generation capacity in the main hydropower plant,and the effective supply capacity is well below demand.[7] While the situation in the electricity sector improved somewhat until late 2003, load shedding is as significant today as it was at the time of the IPR, and investors are unable to operate without expensive back-up diesel generators.

The IPR made a number of recommendations, in particular the following: (1) urgently work to bring new generation capacity on stream, given the long lead times for power projects; (2) attract private investment in generation and attempt to mitigate foreign exchange exposure, including by financing part of the project locally and exporting some of the output; (3) pro-actively introduce competition between the four planned hydro independent power producers (IPP) projects[8] to ensure competitive electricity prices; and (4) consider selling the assets of the Uganda Electricity Board (UEB) as a single entity to a strategic investor, instead of following a "UK model" of splitting the industry into separate entities for generation, transmission and distribution. The IPR recommended that at least the transmission and distribution assets of the UEB be sold as one parcel to optimise the chance of attracting a strategic investor of sufficient size to be a creditworthy power off-taker for IPPs.

Under the Electricity Act of 1999, the Government chose to follow the UK model. In 2001, the UEB was split into three separate corporate entities: (1) the Uganda Electricity Generation Company Ltd. (UEGCL); (2) the Uganda Electricity Transmission Company Ltd. (UETCL); and (3) the Uganda Electricity Distribution Company Ltd. (UEDCL). The Act also established an independent regulator for the power sector, the Electricity Regulatory Authority (ERA). The ERA has rapidly become a technically competent regulator. It has wide regulatory powers, which include issuing licences for generation, transmission and distribution and prescribing their terms and conditions, establishing the tariff structure and developing performance standards.

The Government decided to retain full ownership of assets in the electricity sector, but introduced private sector participation by concessioning generation and distribution operations. On the generation side, UEGCL

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[7] Peak demand is estimated at 350-380 MW, but the current operational generation capacity is approximately of 135 MW at Owen Falls and 50 MW for a thermal plant commissioned in 2005 under a build-operate-own (BOO) contract with a private company.

[8] Bujagali (AES Nile Power, 200-250 MW); Karuma Falls (Norpak, 100 MW); Kalagala (Arabian International Construction, 450 MW).; and Muzizi (CDC, 13 MW).

operations were concessioned in 2005 for 20 years to Eskom Uganda Ltd, a wholly owned subsidiary of Eskom Enterprises of South Africa. On the distribution side, UEDCL operations were concessioned in 2005 for 20 years to UMEME Ltd, a joint venture between Globeleq (fully owned by the UK-based CDC Group) and Eskom Enterprises. Private sector investment in generation is also encouraged. In 2005, the Government contracted Aggreko (United Kingdom) to install and operate a 50 MW temporary plant around Kampala under a three-year power purchase agreement (PPA) with UETCL. None of the four hydropower IPPs being considered at the time of the IPR eventuated, however (see below).

All electricity generated in Uganda must be sold to UETCL, which remains fully owned and operated by the Government. The Government believes that this is the only arrangement able to give sufficient confidence to IPPs to invest in Uganda and enter into PPAs. On the other hand, it could be argued that an opportunity to attract a strategic investor was not fully pursued and that the competitive benefits of unbundling will not be meaningful as long as most of the system has a single owner, the Government.

The modernized regulatory framework and institutions and the concessioning of UEB's generation and distribution operations to reputable private operators have not prevented Uganda from lapsing into a new power crisis after some improvements between 2000 and 2003. The central issue is the great shortage of effective generating capacity, partly as a result of a prolonged drought and also because of difficulties in implementing the planned IPP projects.

The Government focused its attention after the IPR on the projects in Bujagali and Karuma at first, setting the Kalagala and Muzizi projects aside. The Bujagali project with AES Nile Power was near financial closure in 2003, but fell through following domestic opposition, environmental concerns, a corruption investigation and the eventual pullout of AES, which also led the World Bank to withdraw its financial backing. The project was restarted recently with Sithe Global Power (United States) and Industrial Promotion Services (Kenya). The companies recently completed social and environmental assessments, and they anticipate that construction could start in 2007, with operations beginning in 2010 at the earliest.

The Karuma power project similarly stalled, and was only recently relaunched. The Government plans to finance 70 per cent of the total project

cost under a public-private private partnership with Norpak Power Ltd, which is to provide 30 per cent of the cost as equity. The Government hopes to finalize the financial and economic due diligence and environmental impact assessment by early 2007 and to start construction by late 2007. Under the best possible circumstances, the project would not become operational until 2010 at the earliest.

The inability to bring additional generation capacity on stream since the IPR - associated with a prolonged drought - has thus created a severe power crisis in spite of the improvements in the regulatory structure. As a consequence, Uganda is in much the same situation as in 2000, with *planned* IPPs now expected to provide a durable solution several years down the road.

4.2. Infrastructure

Regarding **air transport**, the IPR suggested that Entebbe airport was underutilized and that an international investor/operator should be attracted. It was stressed that the investor would need to have a demonstrated ability to develop the airport into a regional hub and promote backward linkages with the regional economy. A study commissioned by the Government after 2000 concluded that it would be efficient to separate Entebbe airport from the Civil Aviation Authority (CAA) only if traffic were to reach about three million passengers a year.[9] As a result, the Government decided to maintain airport operations (at Entebbe and 13 upcountry aerodromes) under the CAA, for the moment at least.

The CAA itself was restructured around three operational directorates, in compliance with International Civil Aviation Organization (ICAO) guidelines: (1) air navigation and regulatory services;[10] (2) air transport;[11] and (3) airports. Each directorate is ring-fenced within the CAA to provide a clear separation between regulatory and operational functions. The CAA has actively sought increased private sector participation in airport operations, many of which are run by private investors, including ground handling, aircraft maintenance, catering, fuel and cleaning. In addition, it has attracted two private investors to build cold storage facilities, and has worked with the Uganda Flower Association to run a third facility.

[9] About 550,000 passengers transited through Entebbe in 2005 (arrivals and departures).

[10] Includes air traffic services, technical services and flight safety standards.

[11] Includes licensing and monitoring of airlines and formulation and enforcement of air transport regulations.

Efforts have been made to promote Entebbe as a regional hub, but the CAA is facing technical limitations, including insufficient available space to expand the airport (aircraft parking space) and the higher cost of fuel due to Uganda's landlocked position. Some of the incentive measures adopted recently include (1) 100 per cent foreign-owned airline operators are allowed to be based in Entebbe; (2) investments in infrastructure qualify for a rebate on fees charged by the CAA equivalent to 10 per cent of the investment cost; (3) import duties on goods imported by air are calculated on a free on board basis instead of on a cost, insurance and freight basis;[12] (4) taxes (including VAT) on aircraft spare parts were removed; and (5) the 50 per cent surcharge for the cost of lighting for cargo planes landing at night was removed.

The IPR judged that it was unlikely that private investment in **railway operations** could be attracted in Uganda alone. It recommended that a subregional framework (Kenya, Uganda and the United Republic of Tanzania) be provided within which opportunities for FDI could be created. The Government worked in that direction for a number of years, and a joint 25-year concession agreement for freight operations in Uganda and freight and passenger operations in Kenya[13] was signed with Rift Valley Railways (RVR) in late 2006. Attempts to bring the United Republic of Tanzania into the joint concession failed, partly for technical reasons.

RVR is a consortium of five companies led by Sheltam (South Africa), which owns 61 per cent of the shares. Sheltam has a strong track record of operating railways in South Africa and elsewhere. The consortium won the concession through a competitive bid process and is committed to investing in infrastructure (particularly locomotives and computerizing operations) and increasing traffic by 75 per cent in the first five years. It received the financial backing of the International Finance Corporation (IFC).

The local private sector expects that significant improvements in rail services to Mombasa will take some time to materialize, but that the railway should become competitive with road transport. A number of freight operators, including one that initially bid for the concession, expressed optimism about the concession and stated that they were factoring significant improvements in rail operations into their own business plans. The IPR also suggested that the UIA seek to establish an "Uganda area" set aside in the **port of Mombasa** under separate management, which

[12] This means that the cost of transport is not included when calculating duty.

[13] The concession for passenger operations in Kenya is limited to five years.

would allow merchandise to travel in trust having been customs-cleared, but not bonded. This suggestion could not be implemented, although it was mostly beyond Uganda's control as such an arrangement would require the agreement of the Kenya Ports Authority and the Kenyan Government. The Kenya Ports Authority has nevertheless attempted to improve the level of service it provides to Uganda through its liaison office in Kampala, which was established about 10 years ago. There have also been efforts at the level of the East African Community to ease the flow of freight across borders.[14]

4.3. Financial services

The IPR recommended that there be greater efforts to improve asset quality, competition and the level of services in the **commercial banking sector**. Six years later, the sector has registered remarkable improvements. Not only did non-performing loans (NPL) ratios fall sharply, but also the range and quality of services have greatly improved and regulatory standards are much higher.

Much credit must be given to the Government and the Bank of Uganda (BoU) for strengthening the regulatory framework and fostering competition in the banking system. The key initiatives were:

- The Financial Institutions Act of 2004, which provided the basis for the new regulatory framework, including a greater role for the Bank of Uganda;
- A number of regulations issues by the Bank of Uganda in the course of 2005, including on (1) capital adequacy; (2) credit classification and provisioning; (3) limits on credit concentration and large exposures; (4) corporate governance; and (5) liquidity.
- The lifting of the moratorium on the entry of new banks;
- The resale of Uganda Commercial Bank (UCB) to Stanbic Bank (South Africa) in 2002. UCB had been privatized in 1998 to Westmont Land BHD Asia, but it rapidly became insolvent and was put under BoU management before its sale to Stanbic.

The quality and range of services have greatly improved, as illustrated by the following:

[14] Including harmonizing axle loads regulations, reducing the number of weighbridges and easing bond requirements.

- The development of ATMs: while none existed in 2002, there are now 232 across the country;
- More widespread use of e-management tools within banks, which has allowed most of them to ensure connectivity between branches nationwide (including at Stanbic, which took over UCB's entire branch network, the largest in the country);
- The creation of a national switch system that facilitates inter-bank connectivity;
- The development of credit and debit cards that can be used at selected retail outlets;
- The introduction of e-banking services;
- The launch of leasing instruments on a limited scale.

The regulatory measures have also improved the health of the banking system:

- The NPL ratio fell from over 40 per cent in 2000 to less than 3 per cent in 2006;
- By 2004, all banks were complying with the capital adequacy ratio;
- All banks have established risk management systems, as required under BoU regulations;
- Regulations reducing the concentration of bank ownership have been enforced.

In the **insurance sector**, the IPR recommended consolidation among underwriting companies, the privatization of the National Insurance Corporation (NIC), and the development of life business as ways to attract FDI. The Uganda Insurance Commission (UIC) phased in an increase in the minimum capital requirement for insurance companies from USh 200 million ($110,000) in 2002 to USh 1 billion ($550,000) by 2006 to encourage consolidation among small underwriters. Most firms are expected to comply with this requirement by the end of 2006. However the measure is unlikely to lead to any significant consolidation, particularly among the larger players. In 2006, Uganda still had 19 underwriting firms, with the largest three accounting for 50 per cent of premiums.

The Government sold 60 per cent of NIC in 2005 to a strategic investor, the Industrial and General Insurance Company (IGI, Nigeria).[15] The remaining 40 per cent should be sold on the Uganda Stock Exchange (USE) by the end of 2007.

The regulatory changes and privatization of NIC have so far not led to significant structural changes in the insurance sector, which remains dispersed and limited to a few general products (cars, buildings and liability). Life insurance has failed to take off, despite the presence of large foreign investors with substantial experience in the field.[16] Part of the reason for this must lie in the lack of demand for such products.

The IPR commended the Government for establishing a properly regulated **securities market** and recommended that attention be focused on increasing supply, including through privatization and cross-listings. The number of listed companies increased from three in 2001 to eight in 2006,[17] while market capitalization rose from USh 267 billion ($146 million) in July 2001 to USh 4,288 billion ($2.4 billion) in October 2006. Three companies are cross-listed on the Nairobi Stock Exchange. Although turnover has increased significantly over the past few years, the market remains illiquid for both equity and debt instruments, the latter being mostly held to maturity.

5. Implementation of recommendations on investment promotion

The IPR recommended a **"Big Push" strategy of investment promotion** mobilizing political will at the highest level of government. It emphasized that "a dramatic and sustained set of actions that can bring about results on the ground" was required, and that minor adjustments would produce only mediocre results. The Big Push strategy was articulated around an eight-point action plan: (1) a Cabinet Committee on investment chaired by the President; (2) the creation of multi-facility economic zones; (3) targeted promotion of certain sectors; (4) conclusion of BITs and DTTs with key FDI source countries; (5) promotion efforts by Ugandan embassies; (6) intensification of investment promotion efforts and refocusing of the UIA; (7) coordination by the UIA and the drafting of client charters; and

[15]IGI is Nigeria's largest private insurance company, with experience in general and life insurance.

[16]AIG Uganda, a fully owned affiliate of AIG International, one of the world's largest insurance companies, does not offer life insurance in Uganda.

[17]Uganda Clays, British American Tobacco, Bank of Baroda Uganda, DFCU Group, New Vision Printing and Publishing, East African Breweries, Kenya Airways and Jubilee Holdings.

(8) a vision implementation period.

5.1 Presidential Investors Round Table

The IPR recommended that a Cabinet Committee chaired by the President be formed to guide and push the implementation of Uganda's investment strategy, and that it hold regular meetings with captains of industry. Although the President has long been directly and personally involved in investment policy, including the IPR process, it was not until September 2004 that the Presidential Investors Round Table (PIRT) was formed, bringing together the President, key ministers and captains of industry in a formal forum.

The role of the PIRT is very much what the IPR envisioned for the Cabinet Committee, with the UIA serving as the secretariat. The PIRT includes 22 participants from the private sector, who are appointed for two-year terms to ensure continuity in the work.[18] There have been four PIRT meetings so far since 2004, the last one in September 2006.

The issues raised are consistent with the Big Push strategy and the PIRT consists of five working groups in the areas of (1) the regulatory environment; (2) infrastructure; (3) education; (4) ICT; and (5) agribusiness. The working groups have established action matrices that identify a number of recommendations, the agency in charge and time lines for implementation. The working groups also monitor progress. The pace of implementation was at first considered to be unsatisfactory, but since then the President has decided to involve the relevant Permanent Secretaries and encouraged the implementation of recommendations emanating from the meetings. Key measures implemented so far include progress towards financial closure for the Bujagali and Karuma hydro projects, reforms at URA and the creation of a Ministry of ICT.

5.2. Multi-facility economic zones

The IPR recommended that Uganda move away from the traditional concept of free trade zones and set up instead multi-facility economic zones with high-quality infrastructure and certain privileges regarding employment of expatriates, high-quality customs administration or fast-track approvals of various procedures. The Government partly heeded this advice, as it

[18] Of the 22 private sector participants at the moment, 14 are drawn from international firms, including Coca-Cola, Hewlett Packard, Microsoft, MTN, Tata and Unilever.

decided to create a couple of industrial parks that are part dedicated export processing zones (EPZ) with tax privileges and part standard business parks. High-quality infrastructure will be provided to the parks as a whole, but regulatory privileges (taxes in particular) will be restricted to the EPZs. A draft EPZ law is under discussion at the ministerial level, but has yet to be considered by Cabinet.

The Government has two projects underway for industrial parks: the Kampala Industrial Business Park (KIBP) in Namanve and the Luzira Business Park, also in the Kampala area. Both projects are in the early stages of development, and no construction has started. They are managed by the UIA, which has been granted ownership of the land. A number of feasibility studies have been conducted in the past few years, and KIBP has received the financial support of the World Bank to develop the park's general infrastructure, which will be the Government's responsibility. Specific infrastructure (buildings and on-site facilities) will be developed by the investors themselves or by third-party developers.

The UIA issued the pre-qualification document for expression of interest for investment projects in KIBP in October 2006. Private developers and third-party developers are invited to file proposals by the end of November 2006 and the UIA hopes to complete negotiations with selected investors by the end of March 2007, before starting construction towards the end of 2007. The Government indicates that it will develop general infrastructure of a high standard, including (1) transport —road, rail, waterway; (2) water, sewerage and water treatment; (3) reliable electricity supply with a dedicated substation and a 50 MW backup thermal power station; and (4) telecommunications facilities. None of this has been established yet, however. Development at Luzira is at an earlier stage, even though the land has been gazetted and assigned to the UIA.

5.3. Target sectors

The IPR recommended that two or three specific industries be identified and packaged for investment promotion and suggested potential in agriculture, textile and education. It insisted that care be taken to properly structure incentives and that promotional efforts be targeted.

The Government partly followed this recommendation, but efforts have been somewhat dispersed and not as focused as recommended. Around the year 2000, it identified seven sectors for special promotion efforts as part of the Big Push strategy: (1) health; (2) education; (3) printing and

publishing; (4) ICT; (5) agriculture/cotton; (6) finance; and (7) air cargo and inland ports. A number of fiscal incentives were envisaged, including temporary relief on the corporate income tax rate for pioneers and VAT/ import duties exemptions on selected inputs. Although no rebates were granted on corporate income tax rates, a number of exemptions on VAT and duties have indeed been granted, including in education and ICT. At the same time, the UIA prepared sectoral profiles for promotional purposes for a set of 24 sectors.

More recently, the PIRT identified four sectors for special attention - without, however, specifying that they need to be the focus of a targeted FDI promotion strategy (section 5.1). While efforts to select specific areas for investment promotion have been achieved, these lacked the focus that was recommended in the IPR. Some results have been achieved, however, in particular in the education sector, where Uganda has developed a regional strength at the secondary and tertiary level, with a significant number of private investment projects.

5.4. Double taxation treaties and bilateral investment treaties

The IPR suggested that concluding additional BITs and DTTs would be a good way to increase investors' confidence. Five BITs[19] and four DTTs[20] have been signed and ratified since 2000. One key DTT that has experienced delay is that with the East African Community (EAC), which has been pending for a long time. The most recent bottleneck concerned the withholding tax rate on dividends and fees, which Uganda wished to revise downwards. The authorities have indicated that the issue has been resolved and that a formal agreement could soon be concluded at the EAC level, thus paving the way for ratification.

5.5. Promotion efforts by Ugandan embassies

The IPR recommended Uganda to make greater use of its embassies in its investment promotion efforts, particularly in key FDI source countries. The UIA has actively worked on this recommendation. It currently trains all new ambassadors and holds annual training sessions for diplomats. It also makes an award for the best promoter every year, and it uses embassies to

[19] The Netherlands (2000), South Africa (2000), Denmark (2001), Mauritius (2003) and France (2003).
[20] Italy (2000), Mauritius (2003), India (2004) and the Netherlands (2005).

disseminate its promotional materials, including sectoral studies on investment opportunities.

5.6. Intensifying investment promotion efforts and refocusing the UIA

The IPR recommended that investment promotion be strengthened, including by focusing the UIA firmly on promotion and away from administration and regulation, creating a "friends of Uganda" club among existing investors, and avoiding "big shows" seminars, focusing instead on small-scale, targeted efforts.

The UIA was indeed restructured after 2000 to focus its activities on investment promotion, investment facilitation and advocacy. The "manufacturing" division was dismantled, and the UIA adopted a less intrusive approach with investors, including by stopping field visits when granting licences. The number of staff was reduced from 54 to 33 and training was stepped up. Merging the UIA with the Uganda Exports Promotion Board and the Uganda Tourism Board was considered at one point, but the idea was not pursued. Since the restructuring, the UIA has also been delegated the role of promoting business parks.

The UIA has not been converted into a one-stop shop, as Uganda decided to adopt a "team approach" to investment facilitation, whereby all public administrations are encouraged to engage as efficient team members, working towards a common goal. The UIA plays the role of team leader and provides a "Team Uganda" folder that contains forms from five key agencies that most investors are likely to deal with. A complaint box is available at the UIA for investors to raise whatever concerns they may have, and the UIA has led the way in the preparation of client charters for government agencies, with the goal of making them client-oriented (section 5.7). In general, investors tend to be very appreciative of the UIA and most of them report that the staff are available to help them resolve issues they may have.

A "friends of Uganda" network was created to help the UIA in its promotion efforts. It includes executives of companies in Uganda as well as former executives and foreign diplomats that have left Uganda. The UIA is working with them to promote investment and share their knowledge and experience of Uganda. "Friends of Uganda" are given the UIA's promotional material, as well as a certificate that they are part of the network.

5.7. Client charters

The IPR recommended that every public institution dealing with investors be required to prepare a client charter identifying who the "clients" are and what they are entitled to expect in terms of service delivery (amount of time for processing permits, licences, cost, etc.).

As recommended, the UIA took the lead in preparing client charters. As of the end of 2006, 23 agencies (including the UIA, URA, the immigration department and other key agencies dealing with investors) have drafted client charters, and a number of other agencies are in the process doing so. While client charters have proved useful, their impact has been lessened by the lack of built-in procedures to monitor actual performance with respect to the stated objectives. At this stage, agencies are unable to benchmark their performance on a systematic basis, and there can be no monitoring of performance by a "supervisory" agent (PIRT or other). Some charters thus run the risk of being little more than a poster on the wall or a link on a website.

5.8. Vision implementation period

The IPR recommended that a "vision implementation period" be announced, suggesting a period of five years (2000-2005), at the end of which any special privileges (section 5.3) should be considered for review or withdrawn if sufficient momentum had been achieved. The Government did not specifically indicate such a period, and the ambitious timetable set in the IPR could not be adhered to for a number of measures (business parks, IPPs, investment code). To a certain extent, the work of the PIRT constitutes a mechanism for continuous monitoring of work in progress.

6. Implementation of the ten-point action plan of the Blue Book

UNCTAD's Blue Book on best practice in investment promotion and facilitation suggested ten measures to improve Uganda's investment climate. The recommendations were conceived as "quick-win" measures, to be implemented at relatively little cost within a period of 12 months, and were a continuation of the IPR process. The Blue Book was officially handed over to President Museveni in June 2005, with the expected one-year action period thus coming to an end in July 2006.

As has been the case for the recommendations of the IPR, progress has been slower than planned, and only one measure has been fully implemented so far. Partial progress has been achieved for most of the rest, while no genuine action has been taken in a couple of instances. Progress on each of the Blue Book measures is briefly outlined below.

6.1. Introduce the investment and free zones bills

As discussed in section 3.1, the two Bills are still at the ministerial level and were not approved by Parliament by March 2006, as targeted in the Blue Book.

6.2. Submit 14 key commercial bills to Parliament

The Blue Book called for a final draft of each of these Bills to be prepared either by mid-2005 or the end of 2005, depending of the bill. The issue is high on the agenda of the "regulatory environment" working group of the PIRT, but progress has been slower than expected and targeted dates for completion have been postponed.

6.3. Facilitate the process of accessing land for investors

Some progress has been achieved in this area as a result of the UIA's Kampala International Business Park (KIBP) initiative, even though it is not operational yet (section 5.2). Additionally, no liaison officer from the Land Registry has been made available at the UIA to help potential investors secure information on suitable land, as recommended in the Blue Book.

6.4. Zero-rate VAT on all generators

The Government introduced zero-rating on generators of a minimum capacity of 100 kVA (kilovolt-ampere), which is too large for some investors' needs. As recommended in the Blue Book, it brought on stream an additional 50 MW of generation capacity (section 4.1).

6.5. Establish a unified strategy for growing Uganda's most competitive industries

The PIRT identified four sectors for special attention and is developing specific recommendations on each of them. However, no genuine sectoral SWOT analysis and international benchmarking of the sectors have been conducted as recommended.

6.6. Establish a business linkages project comprising at least 10 leading companies

Enterprise Uganda, an institution designed to support Uganda in realizing its objective of promoting the development of SMEs, has been developing a programme for linkages between TNCs and SMEs for a number of years. However, no real progress has been achieved regarding the Blue Book's specific recommendation that a new business linkages project be set up with 10 major companies prepared to commit themselves to the use of SMEs in their value chain.

6.7. Implement the "Team Uganda" concept for agencies dealing with foreign investors

As noted in section 5.6, Uganda has implemented a "Team Uganda" approach and prepared client charters for key agencies dealing with investors. The Blue Book noted that some agencies still had to complete their client charter, however, and that a "team charter" should be prepared. It also noted that the performance of agencies with respect to their targets —individually and as a team— should be monitored and evaluated. While some progress has been made in drafting new client charters, no "team charter" has been prepared and no systematic mechanism to monitor performance has been established.

6.8. Conclude BITs and DTTs with major investing countries

No new BITs and DTTs have been negotiated and signed since June 2005.

6.9. Bring into force the East African Community DTT

The East African Community double taxation treaty remains to be ratified (section 5.4).

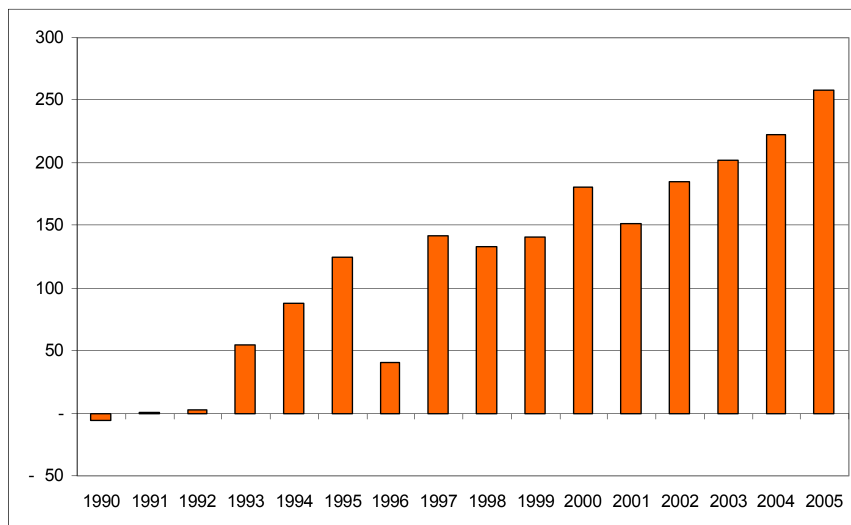
6.10. Jointly issue EAC member State business visas

A joint EAC business visa is now available.

7. FDI attraction performance

FDI inflows into Uganda increased rapidly in the early 1990s as political stability was restored and economic reforms took hold. After a period of relative stability in the late 1990s, the trend of FDI inflows began to rise again in 2002, peaking at $260 million in 2005 (figure 1). Average FDI inflows reached $204 million in the five-year period following the IPR (2001-2005), compared with $127 million in the previous five-year period (1996-2000).

Figure 1. Annual FDI inflows, 1990-2005
(Millions of dollars)



Source: UNCTAD, World Investment Report 2006.

Rather than Uganda's attracting a few very large foreign investments, its inflows are determined by a large number of smaller-scale projects, which is also a reflection of the relatively small size of the economy. Some important or representative projects since 2000 can be highlighted:

- The purchase of UCB by Stanbic, which has had a major impact on the banking sector;
- The arrival of Eskom and Globeleq as holders of the UEGCL and UEDLC concession;
- The arrival of Sheltam as holder of the Uganda and Kenya railways concession;

- The purchase and complete refurbishment of the former Nile Hotel by the Serena Group;
- MTN's investment in mobile telecommunications;
- Crystal Clear Software's investment in producing micro-finance software;
- Fiduga Limited's investment in floriculture.

Although FDI performance over the past five years has been good, it is likely that more rapid implementation of some of the measures recommended in the IPR could have led to stronger investment flows. The current power crisis is also likely to act as a brake on FDI for a number of years, particularly in manufacturing.

8. Conclusion

Uganda has implemented a number of key reforms that have improved the investment framework and attracted increased FDI over the past six years. For these efforts policymakers should be commended. Tables I, II and III provide a synoptic assessment of the implementation status of each of the recommendations made in the IPR. They illustrate the generally good implementation record with improvements registered in most cases.

However, there have been weaknesses or delays in the implementation of certain important measures, and inadequate physical infrastructure remains a key constraint in the investment climate, which will hamper the acceleration of FDI inflows in the future. Constraints include rail and port bottlenecks, but the key issue is the unresolved power crisis. The inability to increase generating capacity over the past six years will prove costly for the economy and the competitiveness of the investment climate. Another weakness that must be noted is that Uganda is relatively slow in moving reforms from conception and development to implementation. Some key reforms/initiatives have long been in preparation or under discussion with little or no tangible results so far. This lack of speed is also illustrated in the relatively slow implementation of the measures of the Blue Book, all of which were designed to be implemented within a 12-month period.

Reforms involve a perpetual drive for improvement, and it was never expected that the process could stop after a period of six years. In the coming years, the Government should focus its efforts on addressing some

of the key recommendations of the IPR that remain only partly addressed:

- Adopt a number of long-discussed draft laws, including the Investment Bill and the Free Zones Bill;
- Make concrete progress towards building additional generation capacity with independent power producers;
- Make rapid progress in building the general infrastructure at Kampala International Business Park;
- Strengthen the "Team Uganda" approach. The quality and delivery of administrative services still has to be improved. Client charters should be taken to the next level by putting in place mechanisms to monitor and benchmark performance;
- Strengthen efforts to move rapidly from conceptualization to implementation, particularly as far as the action plan recommended by the Presidential Investors Round Table is concerned.

Table I. Summary of implementation achievements
Investment framework

Sector/Area	IPR Recommendation	Result	Comment
FDI entry & treatment.	Modernise the investment Act of 1991.	★★	Draft Bill addressing IPR recommendations has been drafted, but remains to be adopted.
FDI entry & treatment.	Remove sector restrictions for foreign investment, namely agriculture.	★★	Restriction is currently not enforced. Draft Investment Bill would address the issued when/if adopted.
Export processing zones.	Prepare and adopt the Export Processing Zone Act.	★★	Draft Bill has been prepared, but remains at the Ministerial level.
Technology agreements.	Remove requirement to register technology transfer agreements with UIA.	★★	Requirement currently not enforced. Draft Investment Bill would address the issued when/if adopted.
Foreign exchange.	Legislate to ensure that the removal of foreign exchange controls lasts.	★★★	The Foreign Exchange bill was passed in 2004.
Land.	Ensure smooth transition from freehold to leasehold.	★★★	No problem has been reported in the transition.
Taxation.	Reform and expedite the VAT refund system.	★★★	Large-scale Uganda Revenue Authority (URA) reform in 2004. General improvement and large taxpayer unit has reduced time taken for VAT refund to large firms.

Key to table:
- ★★★★ surpassed expectations
- ★★★ fully or largely accomplished
- ★★ partially accomplished
- ★ no change or reversal
- + different policy direction taken

Table II. Summary of implementation achievements
Utilities, infrastructure and financial services

Sector/Area	IPR Recommendation	Result	Comment
Power.	Do not apply "UK model" to re-organize the sector and attract single strategic private investor to operate all of UEB's assets.	+	Uganda decided to apply the "UK model" and split the power sector into separate generation, transmission and distribution entities. Only transmission remains owned and operated by the public sector. Appropriate regulations and regulatory institution have been established.
Power.	Bring strategic private investor into the sector	★★	Generation and distribution were concessioned to competent private sector operators, but no single strategic investor took over all of UEB's assets.
Power.	Bring new capacity on-stream.	★	Bujagali and Karuma received priority, but projects did not materialize. Effective generation capacity is well below demand, and additional hydro-capacity will not come on stream until 2010 at the earliest.
Water & sanitation.	Privatise or partly privatise National Water & Sewerage Corporation through a Kampala "carve-out".	+	No interest was found from private investors in a Kampala "carve-out". Government improved management at NWSC through a number of measures.
Air transport.	Make Entebbe International Airport (EIA) a regional cargo and logistics centre.	★★	Certain incentives have been provided to promote Entebbe, but development as a hub suffers from technical limitations.

Table II. Summary of implementation achievements
Utilities, infrastructure and financial services (continued)

Sector/Area	IPR Recommendation	Result	Comment
Air transport.	Attract a private operator to manage Entebbe International Airport (EIA)..	+	Entebbe airport remains operated by the CAA as a policy choice, but private sector runs many functions.
Railways.	Place Uganda Railways Corporation (URC) up for acquisition to develop it under a regional framework.	★★★	A joint concession between Kenya and Uganda was signed in late 2006 with a South African operator that has demonstrated experience in running railways operations in Africa.
Mombasa Port.	Assign an Uganda area in Mombasa port.	★	Little effort was put in this initiative, whose outcome also required cooperation beyond Uganda's control.
Commercial banking.	Introduce new products and services in the commercial banking sector.	★★★★	Many new services have been introduced since 2000, including: ATMs, connectivity between branches, interbank connectivity, salary loans, mortgages and leasing.
Commercial banking.	Increase competition and strengthen the financial situation of commercial banks.	★★★★	Moratorium on entry of new banks was lifted. Financial Institutions Act and BoU regulations have greatly improved the regulatory environment, promoted a stronger banking sector, and fostered increased competition.
Insurance.	Develop life insurance products.	★★	Insurance companies with strong experience in life insurance are present in Uganda, but demand for the product is weak.

Table II. Summary of implementation achievements
Utilities, infrastructure and financial services (continued)

Sector/Area	IPR Recommendation	Result	Comment
Insurance.	Consolidate insurance underwriting sector.	★★	Higher capital requirements have been put in place to encourage consolidation, but there has been no consolidation so far.
Insurance.	Privatise National Insurance Corporation.	★★★	60 per cent of NIC has been sold to a strategic investor, and the remaining 40 per cent should be sold on stock exchange before end-2007.
Securities market.	Increase number of listed companies.	★★	Listed companies increased from 3 to 8, but this remains a very low number.

Key to table:
★★★★ surpassed expectations
★★★ fully or largely accomplished
★★ partially accomplished
★ no change or reversal
+ different policy direction taken

Table III. Summary of implementation achievements
Investment promotion

Sector/Area	IPR Recommendation	Result	Comment
BigPush Measure 1.	Set up a committee involving Cabinet, the President and the private sector to direct investment policy.	★★★	Presidential Investors Round Table (PIRT) was set up in 2004 and has met four times so far. Five working groups have been established to prepare action matrices and monitor implementation.
BigPush Measure 2.	Develop a multi-facility economic zone.	★★	The Kampala International Business Park (KIBP) is at the initial stage of development and construction has not started yet. Luzira Business Park is less advanced still.
BigPush Measure 3.	Target two or three sectors for investment promotion.	★★	Sectors were identified and some incentives put in place, but efforts were not as focused as recommended.
BigPush Measure 4.	Sign DTTs and BITS, and promote them to increase investor confidence.	★★★	Some BITs and DTTs have been ratified since 2000, but the number remains relatively low and the key DTT with the EAC has experienced delays.
BigPush Measure 5.	Involve embassies in investment promotion.	★★★	New ambassadors are trained by UIA, which also holds annual training sessions for diplomats.
BigPush Measure 6.	Intensify promotion and facilitation role of UIA, create a "friends of Uganda" network for investment promotion.	★★★	UIA has been refocused on investment promotion and facilitation. A network was created with current executives and former executives and foreign diplomats who have left Uganda.

Table III. Summary of implementation achievements Investment promotion (continued)

Sector/Area	IPR Recommendation	Result	Comment
BigPush Measure 7.	Adopt clients charters.	★★★	23 client charters have been prepared. Issue now is to put in place monitoring and benchmarking of performance vis-à-vis the objectives.
BigPush Measure 8.	Set a "Vision Implementation Period" and monitor progress.	★★	No implementation period was formally set, but PIRT mechanism is effectively a progress monitoring mechanism.

Key to table:
★★★★ surpassed expectations
★★★ fully or largely accomplished
★★ partially accomplished
★ no change or reversal
\+ different policy direction taken