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Summary

INVESTMENT POLICY REVIEW

UGANDA

CONTENTS

PREFACE

The UNCTAD Investment Policy Reviews are intended to familiarize Governments and the international private sector with an individual country's investment environment and policies. The reviews are presented at the UNCTAD Commission on Investment, Technology and Enterprise Development.

The Investment Policy Review of Uganda was initiated at the request of the Government of Uganda. The Uganda Investment Authority is the implementing agency and the Ministry of Finance and Planning, the cooperating agency. The project is financed jointly by the United Nations Development Programme and the Government of Switzerland.

The Review was carried out through a fact-finding mission in September 1998. Meetings were held with relevant government ministeries and statutory authorities, the private sector and the international community. The analysis and evaluation in this report draws on information gained during these interviews. Complementary activities were also carried out: a survey of foreign investors based in Uganda, 22 sectoral investment profiles, and a survey of investors in home countries.

The review was presented at a national workshop on 23 September 1999, and was considered by the UNCTAD Commission on Investment, Technology and Related Financial Matters on 5 October 1999. The recommendations of the Review have been endorsed by the Government and a follow-up programme is under way with the support of the United Nations Development Programme.

This report has benefited from the contribution of national and international experts. The national experts included Inter Africa Corporate Ltd and the Economic Policy Research Centre, while the Uganda Investment Authority commissioned 22 sector profiles. The international experts included Rory Allan, Mike Faber, Pierre Hostettler, Jagadeesan Jegathesan and Charles Yeterain. The UNCTAD staff include Lena Chia, Khalil Hamdani, and Prasada Reddy.

It is hoped that the analyses and recommendations emanating from this review will promote awareness of the investment environment, contribute to an improvement of policies and catalyse increased investment in Uganda.

INTRODUCTION

Over the past decade the Government of Uganda has reversed earlier policy and management failures that were so destructive of the economy and the investment climate. Economic fundamentals have been restored, the exiled business community has been invited back and State commercial misadventures are being corrected through privatization. The results are evident (see table 1): income per capita is rising in real terms, inflation is down from three digits in the late 1980s to less than 7 per cent for the last five years, and reserves are up from a week's cover of imports to 4.5 months. Uganda has also earned the right to be the first beneficiary of the World Bank/IMF initiative on debt relief for heavily indebted poor countries (HIPC Initiative).

Overall, these achievements have helped restore investor and donor confidence, and have established Uganda as a country of relative stability in the region – the pearl of Africa.[1]

The challenge for Uganda is now to go beyond recovery. The many positive developments since 1991 have been rewarded by a significant and very satisfying revival of domestic and foreign investment . The Government needs to take a number of actions to ensure that this revival is sustained and that Uganda realize its undoubted potential to attract much more FDI. The revival of investment and economic activity is partly a reflection of how fast the economy was previously destroying wealth – in Wall Street terms: «a dead cat bounce». Once the catch-up investments are made, investors will need to shift their sights to the development of new products and markets. There are ample opportunities for investment in new areas in which Uganda has potential competitive advantage, thanks to a diversified natural resource base and a growing regional market. But tapping these opportunities will require continuing public efforts to improve the microeconomic environment in which firms operate. Infrastructure and human resource development deserve priority attention, by the Government and the international donor community.

The need for Uganda to continue the momentum of recovery towards sustainable development is the central message of this report. Chapter I summarizes FDI trends and the improved economic and investment climate which have placed Uganda as one of the front runners in inward FDI in recent years. The inflows have helped to restore productive capacity and to diversify exports. Severe infrastructural constraints and the small market size inhibit the near- term realization of Uganda's full FDI potential, but there are opportunities to sustain new investment inflows. In the longer term, infrastructural constraints must be tackled in order to realize a vision of Uganda as a leading world producer of high quality agro-products.

Chapter I1 reviews the policy and operational framework for FDI. The Government has created a liberal climate conducive to business. Reforms of foreign exchange controls and taxation policies, in particular, have been implemented to high standards of international practice. Important but difficult reforms, such as land ownership, are being tackled. The quality of these reforms has overtaken the provisions of the Investment Code of 1991, which should be revamped in line with the liberal climate.

Chapter III considers opportunities for FDI in utilities, infrastructure and financial services. While these sectors do present some potential for FDI, including through privatization, they face two principal constraints. First, commercial opportunities are limited by the small domestic market. Second, the regulatory framework is not sufficiently developed to provide a clear structure for FDI. The small size of the economy means that Uganda must work exceptionally hard on its regulatory framework to attract substantial investment from major international investors.

Chapter IV provides an Eight-Point Action Plan on Investment Promotion. The strategy emphasizes a «Big Push» for a dramatic and sustained set of actions to overcome institutional and structural bottlenecks.

Chapter V draws the main conclusions and highlights priority actions to attract greater inflows of FDI.

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[1] In characterizing Uganda as the pearl of Africa, Sir Winston Churchill said «My counsel is, concentrate upon Uganda! Nowhere else in Africa will a little money go so far. Nowhere else will the results be more brilliant, more substantial or more rapidly realized..It is the Pearl of Africa». Winston S. Churchill, «My African Journey» 1908.

Table 1. Indicators of macroeconomic performance, 1991-1997

KEY INDICA TOR	1991	1992	1993	1994	1995	1996	1997
Real GDP Growth (per cent)	5.4	3.2	8.3	6.1	11.2	9.4	5.3
GNP per capita ($)	260.0	200.0	190.0	190.0	250.0	300.0	330.0
GDI as a per cent of GDP	15.2	15.9	15.2	14.7	16.4	15.3	15.3
Private Investment as a per cent of GDP	7.8	8.5	8.5	9.2	10.1	10.1	10.4
Savings as a per cent of GDP	0.7	0.4	1.1	4.1	7.1	5.4	7.9
FDI inflows ($ millions)	1.0	3.0	55.0	88.0	121.0	121.0	250.0
FDI as a per cent of GDP	0	0	2.0	2.0	2.0	2.0	3.8
Import coverage ratio of reserves (months of import of goods and services)	1.0	2.0	2.0	4.0	4.0	4.0	4.5

Source: African Development Indicators 1998/99, World Bank Indicators 1997 and Ministry of Finance and Planning, Uganda.