# Determinants of FDI and their impact on economic growth in Uganda

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*[M]ore than a trillion dollars roam the world every 24 hours, restlessly seeking the highest return......*

*..........[A]lthough private investment flows to developing countries increased between 1970 and 1994 from $5 billion to $173 billion, three-quarters of this went to just ten countries, mostly in East and South-East Asia and Latin America. Countries elsewhere, particularly in Sub-Saharan Africa, have been left behind.*

**Human Development Report, 1996**

## 1. Introduction

Governments of developing countries are now giving new attention to the potential for private FDI in their economies. This is because many developing countries now desire to extend the market-price system and the private sector and to mitigate the external debt problem by attracting more private foreign investment.

When a country suffers a resource or savings gap, it will also confront a foreign exchange gap that will have to be filled with an inflow of foreign capital. In macroeconomic terms, when government expenditure plus private investment exceed government revenue and private savings (a resource gap), this internal imbalance will spill over into an external imbalance of imports greater than exports, and hence constitute foreign exchange gap. International financial intermediation is then required to fill the foreign exchange gap. This can be accomplished by loans from multilateral lending agencies and commercial banks, or by private foreign investment. While the former sources of foreign capital are flat or declining, FDI has considerable potential.

It is understandable why there is now a desire by developing countries to increase the equity/debt ratio on foreign capital: There are some relative advantages of FDI over foreign loans from the standpoint of balance of payments adjustment. Equity investment requires payments only when it earns a profit, but debt requires payments irrespective of the state of the economy.

The host country can also control payments whereas the terms of the servicing of debt are set in international markets. In contrast to the need to service debt (amortization and interest), earnings from private foreign investment are frequently reinvested and only a part repatriated. With private foreign direct investment, both commercial risk and the exchange rate risk are passed on to the investor rather than having to be borne by the host government.

Uganda, in her attempt to accelerate growth and development, has always encouraged foreign direct investment through the introduction of incentive packages. This is based on the perception that domestic resource gap can partly be filled through foreign private investment. In other words, as a recipient of foreign savings, domestic resources are, therefore, supplemented. FDI makes available foreign exchange which should, all things being equal, increase the country's capacity to import. The other benefits of FDI include:

(a) the provision of managerial knowledge and skills including organizational competence and access to foreign markets;
(b) enables the transfer of technology to occur from developed economies; and
(c) provides an array of goods and services to residents in the recipient country.

There is no doubt that it is useful to encourage FDIs because the increase in real income resulting from the act of investment exceeds the resultant increase in the income of the investor. Once the value added to output by foreign capital is greater than the amount appropriated by the investor, social returns will exceed private returns. Given that foreign investment raises productivity and this increase is not completely appropriated by the investor, the greater product will be shared with others, and some other income groups will benefit directly. Domestic labour will benefit in the form of higher real wages; consumers by way of lower prices and government will receive higher tax revenue. These arguments do not suggest that there are no demerits to FDI. There are scholars who have argued that FDI leads to the domination of the domestic economy by foreigners; creates distortions in the domestic labour market by paying high wages.

Before the National Resistance Movement (NRM) government of Museveni, the Uganda government theoretically encouraged FDI but in practice there were series of policies that served as disincentives to FDI. For example, a controlled interest rate and managed exchange rate regimes as well as restricted trade policy during the period provided wrong signals to potential investors.

The establishment of Uganda Investment Authority in 1991 with a series of packages and incentives was directed at wooing foreign investors to Uganda.

In this paper, we identify the key factors that motivate foreign investors to come and invest in Uganda. We also establish the institutional constraints investors face in operating business in the country. Finally, we explore the empirical relationship between FDI and GDP growth in Uganda.

The rest of the paper is organized as follows. In section 2 we provide an overview of FDI performance in Uganda right from independence. Section 3 looks at the methodology and discusses the survey findings. The empirical estimation of FDI impact on GDP growth is provided in section 4. Concluding remarks are presented in the final section. The appendices contain, among other things, a detailed description of the survey results.

## 2. An overview of FDI performance in Uganda

FDI in Uganda can be discussed under four regimes, namely, the post-independence upto 1970, the seventies, the 1980 to 1985 and 1986 to 1996. The initial period saw increasing FDI trend, the second and the third, a declining and near death of FDI and the fourth, a resurrection of the FDI.

### The post independence period upto 1970

Before independence, financing of development projects in Uganda came mainly from the British government which was the colonial authority. When the country became independent in 1962, the government had to look for alternative sources of funding including FDI and aid for her development programmes. Government attitude towards FDI was clearly demonstrated in the Uganda Industrial Act 1963 which put emphasis on the promotion of both foreign and local investors.

Government strategy sought to promote industrialization at the expense of agriculture, viewing the former as having both backward and forward linkages, a potential to create market for the other sectors and creation of more employment. Government role in industrialization process of the country was enhanced by the Uganda Development Corporation (UDC) formed by the British in 1952. The state and a few Asian private investors like the Madhvani and Metha groups boosted the industrial growth of the country in the post independence era.

The legal protection for FDI against compulsory acquisition by the state and rights to repatriate capital, interest and dividends was provided under the Foreign Investment (Protection) Act 1964. However, this did not stop the government from slowly moving towards the nationalisation of foreign investment in subsequent years. Towards this end, the UDC which was meant to start investments with big capital outlays and then sell them to private investors was given a legal right to control 51 percent in some of the businesses it had started and this included such projects like Tororo Industrial Chemicals and Fertilizers (TICAF), Uganda Cement Industries (UCI) and Nyanza Textiles Industries Limited (NYTIL).

The biggest step towards nationalisation, however, came under the 1968 Common Man's Charter (CMC) which was viewed as a socialist stand. The economy was predominantly controlled by a few British-Asians who owned the commercial and industrial sectors of the country, a situation which government saw as unsustainable and therefore requiring change. The CMC was followed by the 1970 Nakivubo Pronouncement (NP) which spelt out strategies to implement the CMC. The NP increased government controlling interest from 51 percent to 60 percent in major private companies and manufacturing firms and excluded private enterprises from external trade. Foreign investors were not happy with this development. The business situation became tense and all indicators pointed towards political change. And indeed, in January 1971, the civilian government was overthrown by the army led by Idi Amin.

**The Amin era: 1971 to 1979**

This period was marked by the `Economic War' of 1972, which resulted in the expulsion of the British-Asians, expropriation of the assets and businesses of foreign investors mostly Asians and eventual collapse of the industrial and commercial sectors.

Immediately after the coup, the military government under Idi Amin revoked the *Nakivubo Pronouncement* which provided for 60 percent share-holding and reverted to 49 percent in some industries. But this was followed by the *Economic War* which resulted into the nationalisation of industries and other businesses belonging to foreigners. Some businesses were given to Ugandans to manage while others were put under UDC and government ministries. That marked the beginning of more chaos to come.

The investment climate for foreigners in Uganda during this period was quite hostile. For instance the problems of political instability and insecurity, nationalization, the collapse of East African Community, were compounded by the requirement that a foreign investor be naturalised as a Ugandan to do business in the

country!! Failure to meet the set rules was considered sabotage and was liable for severe punishment which ranged from executions to deportation. So in effect, FDI was outlawed! The Ugandans who took over lacked capital, expertise and connections to continue as had the foreign investors and the commercial and industrial sectors virtually collapsed.

There were shortages of almost everything which led to price hikes. The country lacked foreign exchange and creditworthiness. Subsequently even the military government began to realize the importance of FDI and tried to revive it through the 1977 Foreign Investment Decree which exempted a foreign investor from import duty, sales taxes on plant and machinery in investment in an approved enterprise. The exemptions were not retrospective and only applied if the investment exceeded US$ 571,000[1]. Investors were reluctant to risk their money at that time because Amin was always unpredictable and FDI continued to elude the country. The legacy of the military junta during this period continued to haunt the country for a long time, driving away potential foreign investors.

There was also the problem of overvalued currency with an unrealistic exchange rate that undermined investments by inflating the cost of imported inputs, equipment and spare parts. It had a negative impact on investors' capital structure that included foreign hard-currency obligations. In the circumstances, access to foreign exchange at the official rate was strictly rationed. Delays and/or failures to obtain official foreign exchange in sufficient quantities had serious cost implications on companies. In an attempt to resolve this problem, many firms resorted to purchasing foreign exchange on the parallel markets, where they paid a premium over the rate that would be effective if a more liberalized official exchange rate regime were in place.

**The period from 1980 to 1985**

The military government was overthrown in 1979. Although an elected government came into power in 1980, FDI continued to elude the country, mostly on account of past expropriations of foreign investments. The ratio of FDI to gross fixed capital, which measures the importance of inward FDI to an economy, was negative 0.2 between 1981 and 1985 compared to LDCs (Africa) of 2.3 during the same period[2]. In order to correct this bad image, a bill was presented to and passed by the parliament to return the properties of the foreign investors.

[1] 1977 exchange rate was approximately US$ = 8 Ug. Shs.

[2] See World Financial and Statistical Tables, 1995.

However, it was not implemented till 1990 by a new government under the National Resistance Movement (NRM).

**The period from 1986 to 1996**

To reverse the downward trend in FDI inflows, the NRM government undertook steps to provide Uganda as an investment location. These efforts have included, at the macroeconomic level, wide ranging economic policy reforms such as foreign exchange rates reforms. Other measures have included the liberalization of existing framework, the simplification of administrative procedures applicable to foreign investors, the conclusion of bilateral investment protection and promotion treaties and accession to various multilateral treaties facilitating FDI flows.

The Investment Code 1991 is the law governing investment in Uganda, which replaced earlier statutes relating to foreign investments, namely the Foreign Investment Decree 1977 and the Foreign Investment (Protection) Act 1964. However, privileges and property rights enjoyed under previous legislation by holders of licenses were to continue and were to be reviewed under the Code.

The Investment Code 1991 provided for the creation of the Uganda Investment Authority (UIA) to facilitate the procedures for those interested in investing in the economy. It is a one-stop-centre for investors.
The broad function of UIA is to promote, facilitate and supervise investments in Uganda. Specifically, among others, the functions of UIA include:

(a) to initiate and support measures which shall enhance the investment climate in Uganda for both Ugandan and non-Ugandan investors;
(b) to promote investment in Uganda through effective promotional means;
(c) granting approvals for the commencement of new businesses;
(d) to provide and disseminate up-to-date information on incentives available to investors;
(e) to assist incoming and existing investors by providing support services; and
(f) to recommend to the government national policies and programmes designed to promote investment in Uganda.

In order to encourage foreign investors, a number of investment promotions have been organized abroad - the USA, Europe, India, Thailand, South Africa, etc. to explain the trade and investment opportunities available in Uganda, especially in agro-farming, fishing and forestry, minerals, power generation and tourism.

Attractive incentives have been provided to prospective investors as well.

A survey of actual and potential foreign investors shows that reform of regulatory and incentive environment has made Uganda more attractive to investors than many African countries. The Heritage Foundation (a research centre) of Washington DC in its December 1996 Report, `Index of Economic Freedom', published in the Wall Street Journal, ranked Uganda as number 64 out of 150 countries.[3] The ranking is based on the comparative analysis of economic freedom of a country in ten key areas, including: trade and taxation policy, wage and price controls, government consumption, monetary policy, capital flows and foreign investments, banking policy, property rights, regulations and the black markets.

Thus, although Africa's share of FDI flows to developing countries dropped from 11 percent in 1986-1990 to 6 percent in 1991-1993 and down to 4 percent in 1994, the upward trend of investment flow into Uganda is a promising indication of the newfound confidence in a greatly improved political economy.

Table 1, while failing to differentiate between local and foreign projects, exhibits the encouraging surge of investment emerging in Uganda. Between 1993/94 and 1994/95, private sector investment increased from 5.6 percent to 9.1 percent of GDP.

**Table 1: Total investment (local and foreign) in Uganda, 1991-1995**

| | 1991 | 1992 | 1993 | 1994 | 1995 | Total |
|---|---|---|---|---|---|---|
| Licensed projects | 12 | 232 | 351 | 571 | 554 | 1720 |
| Planned investment (US$mil.) | 66 | 505 | 628 | 563 | 750 | 2512 |
| Actual investment (US$mil.) | 25 | 192 | 239 | 214 | 285 | 955 |

**Source: UIA database for July 1991-December 1995**

Actual investment figures are taken as 38% of proposed investment. Various in-house UIA surveys taken in 1993, 1994 and 1995 all had proposed/actual conversion rates between 38 and 40%. Also, breaking down the investment into years is difficult as most of the inflow is incremental over years and hard to trace with the somewhat unsatisfactory techniques of the UIA surveys.

While the above trend is encouraging, it is essential to note the wide disparity between the licenses granted to proposed investments and the actual investment on ground. The UIA promotional literature and independent assessment of Uganda's

[3] Kenya and Tanzania were ranked 75th and 89th places, respectively.

investment climate only observe the planned investment figures without showing the reality of the situation on the ground. The average conversion rate of approximately 38% is very low in relation to other developing countries outside of the Sub-Saharan Africa.

Factors leading to this low conversion rate include the hesitancy of investors (value of waiting)[4], the difficulty in passing through the discouraging bureaucratic impediments before implementation can commerce, and the investors discovery of the difference in the rhetoric of the promotional agency and the reality of the business environment encountered after the initial license is obtained. Each perspective has validity.

The sources of inward foreign investment coming into Uganda do not reflect the traditional domination of large Western multinational corporations (MNCs). Among investors looking to invest in East Africa, a slim 15 percent are major MNCs.[5] Table 2 shows the sources of FDI into Uganda.

**Table 2: Sources of licensed inward FDI into Uganda (as of June 1995)**

| Sources | Number of FDI | Percent of Total |
|---|---|---|
| UK | 293 | 27 |
| Kenya | 193 | 18 |
| India | 123 | 11 |
| Canada | 123 | 11 |
| South Africa | 9 | 8 |
| Others | 332 | 31 |
| Total of African countries | 277 | 26 |

**Source: UIA, Operating Summary, June 1995**

The FDI coming from UK, Canada and Kenya can be misleading. Many of these investors are in fact Asians forced to flee Uganda in 1972. The Uganda business sector before 1972 was dominated by about 70,000 Asians, most of them fled to UK, Canada and Kenya. The vast majority of FDI flowing into Uganda comes from firms with previous experience in Uganda or East Africa.

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[4]Foreign investors obtain licenses yet continue to wait for further proof of stability before actual implementation takes place. They want to secure the incentives and the right to invest but want to gain more assurance about policy consistency before beginning.

[5]Economist Associati 1994, Vol. I, p. 12.

Investment serves one of the three general purposes: to extend vertical integration, to export to the region, or serve the domestic market. Typically, FDI exploits the raw materials and cheap labour of developing countries and exports abroad. Investment flowing into Uganda with little exception targets the domestic market. However, this trend is slowly changing.

The main sectors which attracted more investments during the last five years or so are:

(a) **Manufacturing** (i) import substitution industries such as chemicals, cement, etc.; and (ii) agro processing, for example, food processing.

UIA Survey of 1995 shows that most of the post-1991 investment is reportedly going into the manufacturing sector, which is accounting for 70% of on-ground investment. Ugandan manufacturers are largely producing import substitutes. About 40% of manufacturing investment has been agro-based. Overall, during 1991-94, investment has not been directed at export oriented activities. Just about 8% of manufacturing output was exported to regional markets in 1995.

(b) **Agriculture, forestry and fishing** - dominated by coffee and rehabilitation of tea plantations; other nontraditional agricultural crop exports (in raw form or with minimal processing), fish products, floricultural and horticultural products, etc.

(c) **Construction and services** - construction and renovation of hotels mainly for tourism subsector grew by 18 percent per annum during 1995, earning about US$90 million from US$73 million in 1994. The banking and insurance industry also witnessed some improvement but based mainly in Kampala.

Of the above three sectors, FDIs are concentrated mainly in manufacturing because of the problem with the agriculture. An obsolete, over protective law preventing foreign ownership of land and limited acreage of land to leased prevents FDI from large-scale investment in Uganda.

In addition to manufacturing, much of the foreign investment can be linked to donor-related projects. Unfortunately, there is not much information on the foreign projects linked to donor subsidies. Donor supported investment has been in projects in infrastructure such as road building, non-traditional exports, etc.

## 3. Methodology and main survey findings

### Methodology

The study uses both primary and secondary sources of data. Direct questioning of the investors to obtain insights regarding their decisions and decision making processes were undertaken. For instance, to gauge the foreign investors' attitudes and experiences in Uganda's investment environment, loan accessibility and so forth. Structured questionnaire was used to obtain the desired information. The study is to add importantly to the understanding of motivation and behaviour of foreign investors in Uganda.

Annual time-series data for the variables of interest for the period 1975-1991 were collected from the following sources: World Bank, World Debt Tables (various issues); IMF, International Financial Statistics (various issues); Government of Uganda, Background to the Budget, and Key Economic Indicators (various issues); and Bank of Uganda, Annual Reports (various issues). Specifically, the secondary data are used for estimating the determinants and growth equations.

### Scope of the survey

The survey covered both local and foreign investors operational in Uganda. The survey was exclusively concerned with productive activities, with the explicit exclusion of purely commercial and consulting activities. Sectors covered by the survey include: (i) agriculture and related processing activities; (ii) manufacturing; (iii) construction; (iv) service activities providing a direct and substantial support to productive activities (eg., transport, etc.); and tourism (hotels and lodges, but not restaurants and casinos).

The survey was conducted on the basis of face-to-face interview/discussion and a structured questionnaire covering the following subject matters: (i) sources of interest and first contact points in Uganda; (ii) attitude about investment incentives; (iii) Problems in operating business in Uganda; (iv) recent investment activities; (v) planned future operations; and (vi) investors' attitudes towards government regulations and agencies.

The questionnaires used were structured along the lines of the World Bank and UIA 1994 surveys. UIA provided a sampling frame of operational investments from which we took a random sample of 85

investors. Out of these, only 61 responded by providing most of the information required for the analysis.

**Main survey findings**[6]

Government has made a lot of efforts in attracting investors through, for example

- Provision of an enabling investment environment by maintaining political and macroeconomic stability.

- Establishment of policies and institutions which are conducive to project implementation and operation. The creation of investment vehicle - Uganda Investment Authority - and the 1991 UIA Investment Code offering security and incentives to investors in an attempt to offset the risk and increased cost of investing in Uganda (see Appendix A).

- Privatization programme which is creating new opportunities for both local and foreign investors thus stimulating investments. According to one survey, one-third of FDI flowing into Uganda is related to the purchasing of state enterprises.[7]

  Privatization programs act as a signal of the authority's commitment to private ownership. Moreover, the privatization programme with foreign participation acts as a vehicle to increase FDI flows with potential qualitative contributions to the economy over a longer period of time, since FDI flows can continue after the acquisition of an asset owing to post-privatization investment. Foreign investors also see it as a vehicle for fast entry into Uganda market and can provide profitable investment opportunities.

- The Asian repatriation factor is another catalyst for FDI inflows. Between 1991 and March 1996, 1,788 properties have been repossessed and returned to their original Asian owners.[8] The returning capital to build on repatriated property must be taken into account when evaluating the upward trend of FDI flowing into the country. Note that this portion of investment is not likely to persist now that all the properties have been claimed by their previous owners.

[6] Details appear in Appendix B.

[7] Economisti Associati, 1994, Vol. I p. 19, Vol. III p. 24.

[8] Department of Departed Asian Custodian Board - Divestiture Notes on Properties, March 1996.

***What are the perceived strengths and weaknesses of Uganda as an investment location?***

- The most widely perceived strength is the overall growth prospects buttressed with liberalized exchange rate and a fully convertible currency, low inflation and stringent fiscal management.

  However, the perception that Museveni is the key to Uganda's economic recovery and hence the perceived indispensability for the country's progress is viewed by foreign investors as a major weakness. They concede that if this is true then the future of Uganda will be highly uncertain if he were no longer in power.

- The main weaknesses are: its hostile and anti-FDI history,[9] landlocked position, poor infrastructure, high tax on fuel[10], slow and high cost of utility installation and low labour productivity; making Uganda a high cost country.

- The on-going conflicts especially in the North of the country erode investors' confidence and taint the image of the country.

- Uganda does not have a large domestic market (poor population of only 19 million). Moreover, Uganda lacks access to regional market because of the high degree of protectionism. Yet, open boarder trade could easily wipe out our entire manufacturing base (Tulyamuhika 1995 report on cross boarder trade)!!

- The banking system in Uganda is still underdeveloped, small and underdiversified handling essentially short term commercial transactions. Almost inaccessible sources of development finance for long term investments.

- Although the macroeconomic policy - guided largely by the donor community - is predictable, the policies that have a direct impact on FDI remain erratic and thus constitute a serious impediment to investment facilitation. The root cause is the conflicting interests of the pressure groups: international donors, government agencies, foreign investors and politicians.

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[9] Uganda has a history of expropriation of foreign investment and discouraging regulations. The incentive system was biased in favour of domestic firms.

[10] For example, the tax element of the fuel price in Uganda is equivalent to the pump price motorists pay in Kenya!

One example of such policy unpredictability is the tax incentive policy since 1987. In 1987 duty payable on all industrial raw materials was suspended. The same duty was reintroduced in 1990 at the rate of 10 percent. The 1991 Investment Code abolished this duty for inputs used by new investors to minimize start-up costs. In 1992 after foreign firms negotiated agreements with the government over several tax rates, the Budget Speech[11] of 1993/94 ignored these agreements by revoking the duty exemptions on all industrial raw materials. In 1994, 10 percent duty was allowed for most raw materials not available locally. In addition, exemptions are added and revoked on an ad hoc basis by the Minister of Finance[12]. For investors to rely on erratic policies left to the discretion of an individual is inconceivable.

***What are the main investors' primary concern?***

- Foreign investors' are primarily concerned with fundamental factors, that is, a stable macroeconomic and political situation, together with credibility of policy reforms.

  A stable and sustainable macroeconomic environment boosts the confidence of private investors. Reductions in debt burden are also critical not only for sustaining both external and fiscal balance but also for engendering confidence to encourage private sector investment.

  However, the very scale of the achievement of President Museveni invites the question whether the reform process is more deeply rooted politically than the person of the president.

- Other factors that determine the location decision of investors are: market size (in terms of GDP per capita or size of the population) and market growth (GDP growth rates in constant prices). In addition, factors such as availability of natural resources, the quality of the infrastructure, and the cost, productivity and technology skills of labour are also taken into account.

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[11] Changes in policies are usually announced during annual Budget speeches.

[12] The Investment Code gives the Minister of Finance the powers to amend the incentive scheme in an annual Budget Speech (see Investment Code, Part III, Section 11(4).

***How useful are the tax holidays and exemptions?***

- There are no incentive schemes put in place specifically for local investors, rural sector (agricultural, in particular) and micro and small scale enterprises that form the bulk of producers and processors.

- Uganda's 1991 investment code offers tax holidays of up to 6 years from corporate profits taxes, dividends tax and withholding taxes on transfers to associated or parent companies abroad. The investment threshold for a local investor is $50,000 and for a foreigner-owned enterprises the minimum is $300,000. Although the thresholds differ, the holidays are widely perceived as benefitting mainly foreign investors.

  The decision to grant tax holidays rests with UIA which has the power to grant or refuse subject to the investment code. Companies with a generous holiday may have significant competitive advantage over companies which do not have a holiday. This results in gross inequality and unfair competition.

  Lack of transparency of this nature leads to abuse, corrupt tendencies such as favouritism towards firms with connections to people in places of authority.

- There is no discrimination in the allocation of these incentives in terms of project location in the country, employment creation, or market orientation (domestic or export).

- The tax holiday encourages enterprises which can establish and operate profitably very quickly. It is of limited value to a project which involves substantial investment and takes a long time to become profitable. Yet those are much more important from the economic development view point.

  It must be noted that when a tax holiday expires it is quite easy for an investor to wind up and leave country or to establish under a new name to qualify for a new tax holiday. Thus the existing tax incentives encourage mainly short term investment as investors are aware that their tax obligations will change after the holiday.

- Tax holidays are insensitive to the value added a project brings to the economy. An enterprise which imports all its

inputs (eg. bicycles, steel industry, etc.) gets the same benefits as one which uses primarily locally sourced inputs and therefore increases much more local value-added.

- Firms which commenced operations after January 1991 enjoy 100% exemptions while those already in business receive less than 100%. The problems with this is that it is possible to get firms in the same industry getting different degrees of exemption resulting in unfair competition among them.

- Tax policy appears to be ad hoc and subject to a lot of abuse. There is too much secrecy and apparently no objectivity in arriving at exemption tax rates which range from 0% to 100%. On top of that, the list of exemptions - that is, corporate tax, with-holding tax, tax on dividends and tax on imported intermediate inputs - differ from one investor to another. This is at the discretion of highly placed Ministry officials.

***What are the main institutional constraints?***

- **No one-stop shop**: There is a difference between stated purpose and actual function of the UIA as a one-stop shop.[13] There is wide discrepancy between the rhetoric in the Code and the reality of the application processes. A true one-stop shop does not exist in Uganda as UIA is not empowered to grant all licenses needed for operation and cannot guarantee access to serviced land for investors.

  While the powers of administration of foreign investments are vested in the UIA, at the same time many agencies still maintain the real decision-making capacity.

  The government is sincerely advocating for FDI as evidenced by the creation of the UIA under the Investment Code in addition to extensive measures promoting privatization, but these efforts are diluted as the initiatives trickle down through the reluctant institutional structures. There is an apparent gap between the pronouncements by government leaders on the need and desirability for foreign investment and the

[13] In practice, dealing with UIA is like playing snakes-and-ladders in the dark. Foreign investors supposedly can go straight up the ladder from the one-stop UIA. But a snake waits on the next square taking them straight back down into the bureaucracy. The UIA carries so little weight with other ministries that it is known not as a one-stop shop but a `toothless, yet another one-more-stop shop'. Bureaucratic institutions include NEMA, UNBS, Kampala City Council and the utility companies UPTC, UEB, NWSC and the Inspectorate of Factories.

actual handling of applications and paperwork by lower level of bureaucrats. For example, UIA may license an investor for one incentive which is interpreted and implemented differently by the revenue collectors. Thus even after being certified for incentives the version which is received may be diluted significantly.

- **Business registration:** There is no publication of what steps an investor must follow to become operational. In addition, there is no time scale or itemization of the registration costs involved. In most cases one has to make several trips to different sections of the registration process - where more paperwork is added almost arbitrarily by bureaucrats.[14]

- **Serviced land:** The difficulty of obtaining land is often attributed to bureaucratic entanglements, legal constraints and scarcity of serviced land. Even when these problems are resolved and the land is located, more of these are added. For instance, an investor then has to obtain land titles or official leasing certification which although critical for the security, can take years to obtain.

- **Trading licenses:** The anti-export bias inherent in Uganda's policy is compounded by the lack of transparency in getting a trading license. The Trade (Licensing) Act of 1969 grants the Minister excessive discretion to alter an already unclear process. The Minister has the power to declare, by Statutory Order, which goods cannot be traded by a non-citizen, reduce any fee payable or refuse to grant a trading license without reason. The cumbersome and frustrating method of obtaining a trading license is not published but must be found out incrementally as the investor goes from one agency to another.

- **Tax administration:** The changing status of tax incentives combined with the pressure applied by the international donors to boost revenue collection and the ambiguous delegation of powers leaves the URA free to exploit a muddled tax system.

  Because schedules of revenue collection are not clear, the URA uses this excuse to visit businesses at will to review accounts and look for loopholes to levy other taxes. The tax code is often open to abuse and misinterpretation without

[14] A recent UIA study has confirmed that there are at least 12 decision centres including UIA to be visited before any business is operated in Uganda. This may explain why there is an enormous discrepancy between FDI licensed by the UIA and FDI actually implemented.

accounting for defunct tax laws which remain on books. There is no up todate coherent set of rules to protect investors from arbitrary collection by the URA. There is no one document listing the 30-plus taxes and investors can be ambushed by the tax authority with demands for back tax over several years.

- **Legal system:** According to a 1995 USAID study, the Ugandan administration of justice is `plagued with long delays, lack of publications and non-transparency, encouraging corruption and making business planning difficult'. Many foreign investors interviewed try to avoid the judicial system altogether and pursue private arbitration when absolutely necessary. In addition to inexplicable delays in judicial decision, the courts have been under public scrutiny for corruption.

- The Uganda Revenue Authority (URA) has been singled out as the most difficult agency to deal with. This assessment arises out of the URA's arbitrary assessments, lengthy delays in clearance of documents and goods, and hostile attitudes of some revenue agents. Investors complain that URA has excessive discretion, lack clarity and many of its officers are corrupt.

  Many investors have complained of URA revoking incentives given by the UIA, especially with regard to tax holidays. With a defunct Tax Appeals Court, the only recourse businesses have in disputing a tax liability is through an appeal to Tax Commissioner, hardly a neutral arbitrator.

  UIA and URA are pushed towards goals by external forces that contradict each other over the same jurisdiction. The UIA with half of its funding from USAID, `exists to promote a liberal competitive code, ease investment constraints, and encourage inward investment through competitive tax incentives'. The degree of its success is measured by how much investment is attracted to Uganda. On the other hand, URA is under increasing pressure to collect more revenue. With substantial financial support from ODA, IMF and World Bank, URA's success is measured by the degree of revenue maximisation rather than by creating a good working relationship with tax payers.
  This URA/UIA contradiction is a serious problem, which needs to be addressed to improve the investment environment.

- The Uganda Electricity Board (UEB) is very unpopular with those mainly in the manufacturing sector. The power supply is

irregular and UEB tariffs are said to be higher than those in the neighbouring Kenya and Tanzania.

## 4. Empirical estimation of the FDI and GDP growth model

The decision by foreigners to invest in a given country depends on a wide range of factors in the host country. Among the major ones are: the availability and cost of natural and human resources; adequacy of infrastructure and support facilities; market size; trade policies and other policies that affect macroeconomic stability; economic growth and level of development; and political stability. The importance attached to each of these factors depends on the type of investment and the motivations or strategy of investors.

Relative costs influence location decisions, but low direct labour costs are not of as much importance as is commonly believed. In fact, the importance of low-cost unskilled labour in location decisions has declined in recent years and greater emphasis is now placed on skills and the `trainability' of workers.

Moreover, in many industries, direct labour costs now account for only 10 to 15 percent of manufacturing costs, and the share is even smaller in some industries. In contrast, because of white collar and supervisory roles, labour costs have been rising in the more developed countries, it has become increasingly attractive to invest in countries that offer low-wage high technology skills pool of labour. As multinationals transfer ever more sophisticated production lines to developing countries, the availability and cost of skilled labour becomes of growing importance.

Market size is also significant in affecting location decisions. Larger economies have attracted the bulk of FDI. This is because of the potential for local sales. In small economies, FDI usually concentrates on production for export.

There is also somewhat of a `herd effect' with potential investors following where others are already operating successfully. Further, as more firms invest in a country, synergies and linkages develop among them.

Costs are also affected by adequacy of infrastructural facilities and the supply of utilities. Unreliable transport and telecommunication services and insufficient power or water supply create operational bottlenecks, which could be very costly. In addition, the existence of efficient financial and other support facilities, which can cater to the diversified needs of investors, is also necessary.

The host country's policies with respect to restricting or welcoming FDI will obviously also affect the magnitude and character of FDI. Not only will the policies have direct effect on FDI, but they will also affect whether the foreign firm wishes to export or license instead of having a direct production investment in the foreign country.

Finally, the importance of political stability in creating a climate of confidence for investors cannot be underestimated. Political instability, whether perceived or real, constitutes a serious deterrent for FDI as it creates uncertainties and increases risks and hence costs.

There is no doubt that in order to determine quantitative and perhaps more precise relationship(s) between the above factors and FDI in Uganda, it is necessary to specify and estimate a model linking them.

Based on the Ugandan situation and availability of consistent data series, the following model is specified and estimated:

**FDI determinants equation**

$$(1) \quad FDI = á_{11} + á_{12}GDPGR + á_{13}GDP + á_{14}TB + á_{15}INF + á_{16}PPEGDP + á_{17}DSR + á_{18}EDSGDP + å_{1}$$

**Growth equation**

$$(2) \quad GDPGR = á_{21} + á_{22}FDI + á_{23}GDS + á_{24}OCF + á_{25}EXGR + á_{26}AID + å_{2}$$

where
FDI = Foreign Direct Investment,
GDP = Gross domestic product,
GDPGR = Annual growth rate of GDP,
TB = Trade account balance,
INF = inflation rate
PPEGDP = proportion of public expenditure to GDP,
DSR = Domestic savings rate,
EDSGDP = external debt service as a proportion of GDP.
GDS = gross domestic savings as proportion of GDP,
EXGR = rate of growth of real exports,
AID = net current transfers to government plus official long-term borrowing,
OCF = other capital inflows,
$å_{1}$, $å_{2}$ = stochastic disturbance terms.

Superficially, the model just puts together two single equations, which are rather familiar in the literature of FDI. The economic

implications are, however, quite different from those of single equation models. In the simultaneous equation model, both GDPGR and FDI are endogenous variables. GDPGR can affect FDI via equation (1), but FDI can in turn affect GDPGR via equation (2). The interdependence of FDI and GDPGR does not exist in a single equation model where either FDI of GDPGR is treated as exogenous. Neglecting the interdependence may result in biased and inconsistent estimates. Accordingly, the model consisting of (1) and (2) is more appropriate in capturing the underlying relationship among variables from the point of view of both economic theory and statistical investigation.

The independent variables capture some structural characteristics of the economy and are related to economic policy, which can be adjusted by policy makers in order to make FDI more attractive. Rate of inflation is preferred to exchange rate because the cost of the latter in Uganda fuels inflation. The inflation rate is also a proxy of some measures of macroeconomic stability. The high debt service EDSGDP overhang describes both the structure of the economy and political effects.

Government's behaviour is also important. Thus the share of government consumption in GDP is included to capture the size of government.

***The FDI determinants equation***

Equation (1) includes most of the frequently mentioned quantifiable
demand side determinants of FDI.[15] The variables GDP and GDPGR stand respectively for the market size hypothesis and the growth hypothesis. The market size stresses the necessity of large market size for efficient utilization of resources and the exploitation of economies of scale. As the market size grows to some critical value, the hypothesis asserts that FDI will start and increase thereafter with the expansion of the market size (Scaperlanda and Mauer, 1969; Torrisi, 1985). Moreover, GDP can be used to capture the influence of proven economic performance. The higher the value of GDP implies, in addition to greater domestic market, better infrastructure and hence provides greater incentive for FDI. The

[15]Admittedly, there are noneconomic, qualitative factors such as political stability and incentive policies that are of vital importance in determining FDI. The difficulties and controversies in defining and quantifying these variables prevent the study from including them in the analysis. Although Root and Ahmed (1979) suggested the use of discriminant analysis to avoid problems in regression analysis, there is still a problem of assigning categorical index to each qualitative variable.

growth hypothesis postulates a positive relationship between FDI, GDPGR, PPEGDP and DSR.

According to the theories of FDI, developed nations will tend to invest in poorer countries that have a higher rate of return. In Uganda, the capital market is not well developed hence the return on capital is being proxied with GDPGR. The argument is that a rapidly growing economy provides relatively better opportunities for making profits than the ones growing slowly or not at all (Lim, 1983). Thus an impressive rate of economic growth will be taken as a favorable signal by international investors when making investment decisions.

The relationship between trade balance (TB) and FDI is rather complex and there are diverse predictions about this relationship (see, for example, Torrisi, 1985; Tsai, 1994). Following Fry's (1983) view, along with the argument of the two-gap model that foreign exchange is one of the key constraints on economic growth in developing countries, it is not difficult to understand the relation between trade balance and FDI. When a country faces growing trade deficits, it is expected to adopt more favorable policies to facilitate inflow of FDI.

***The growth equation***

The growth equation is derived from a neoclassical aggregate production function comprising exports (see, for example, Ram, 1985). There are reasons to include the export variable in the growth equation. It is well documented that trade, especially exports, may increase competition, permit the realization of comparative advantage, enable countries to purchase goods from abroad, and provide opportunities to gain access to new technology as well as managerial skills (Voivodas, 1973; Tyler, 1981; Ram, 1985; Rana and Dowling, 1988; Otani and Villanueva, 1989).

The impact of FDI on economic growth is one of the most controversial topics in development economics. According to the modernization hypothesis, FDI promotes economic growth by providing external capital and through growth, spreads the benefits throughout the economy. It is the presence, rather than the origin of investment that is considered to be important. Moreover, FDI usually brings with it advanced technology, and better management and organization. FDI, is, in fact, the other `engine' of growth in developing countries. Contrary to this modernization hypothesis, the dependency hypothesis, while admitting a possible short-term positive impact of the flow of FDI

on economic growth, insists that there is deleterious long-term impact of FDI on economic growth
as reflected in the negative correlation between the stock of FDI and growth rate. In the short-run, any increase in FDI enables higher investment and consumption and thus creates directly and immediately to economic growth. However, as FDI accumulates and foreign projects take hold, there will be adverse effects on the rest of the economy that reduce economic growth. This is due to the intervening mechanisms of dependency, in particular, `decapitalization' and `disarticulation' (lack of linkages) (Stoneman, 1975; Bornschier, 1980; O'hearn, 1990).

Some economists have argued that political, social and cultural factors play crucial roles in determining the growth performance of a country. Others have argued that the impact of FDI on economic growth might vary across countries because of different stages of development.

From the preceding discussions, the expected signs for the coefficients of GDPGR and GDP are positive, whereas that of TB is negative. In the growth equation, the coefficient of FDI denotes the impact of FDI on economic growth. According to modernization hypothesis, it should be positive. But dependency hypothesis would expect the coefficient FDI to be uncertain. Finally, the variable GDS is so standard in a production function that it is unnecessary to repeat the rationale of including it. As usual, the coefficient of GDS is expected to be positive.

## Empirical results

Because of the likely simultaneity between FDI and growth, a two-stage least squares (2SLS) estimation method has been used. The period covered is from 1981 to 1995. Note that the $R^2$ defined for the 2SLS does not have the usual interpretation for $R^2$ as the proportion of variance explained by the regression.

**Table 3: FDI determinants and growth equation**

| *Explanatory variables* | *FDI determinants* | *Growth equation* |
|---|---|---|
| Constant | -9.564** | 3.910 |
| | (-4.021) | (1.697) |
| GDPGR | 0.098** | |
| | (2.187) | |
| GDP | 0.005** | |
| | (1.987) | |
| TB | -0.102** | |

| | | |
|---|---|---|
| | (-2.401) | |
| INF | -0.053 | |
| | (-1.873) | |
| EDSGDP | -0.042 | |
| | (-1.724) | |
| PPEDGDP | 0.098** | |
| | (2.145) | |
| DSR | 0.019 | |
| | (1.408) | |
| GDSGDP | | 0.961 |
| | | (1.166) |
| EXGR | | 0.726** |
| | | (2.049) |
| AID | | 0.256** |
| | | (4.895) |
| OCF | | 0.193** |
| | | (2.118) |
| FDI | | 0.172 |
| | | (1.104) |
| $R^2$ | 0.80 | 0.35 |

Note: The numbers in parentheses are asymptotic t-statistics;
** indicates significantly different from zero at 5% level.

All sources of funds have a positive impact on the growth rate, with flows to the public sector having the strongest effect. Table 3 reveals a number of interesting observations, for example,

(a) The overall performance of the FDI determinants equation are quite satisfactory with a computed F-value of 21.09 which far exceeded the critical F-value at 5% significance level. All the coefficients are correctly signed and three of them are statistically different from zero. The fact that the coefficient of GDPGR is statistically significant confirms the existence of simultaneity problem. Both the market size and the growth hypotheses are supported by the study. The significant negative correlation between FDI and TB indicates that a deterioration of the trade balance does, as expected, lead a country to adopting more liberal policies toward FDI.

    High and unpredictable inflation, a proxy for macroeconomic instability, distorts the information content of the market prices and the incentive structure. As the results above, this impacted negatively on FDI.

(b) As expected, FDI impacts on growth positively though the coefficient is insignificant. The importance of the export

variable reaffirms the findings of most researchers (see, for example, Ram, 1985).

(c) The estimation results suggest that foreign AID and other capital inflows (OCF) significantly influenced growth through public sector investment in Uganda over the period 1981-1995. For, example, foreign aid resulted in an increase growth by approximately 25.6% which was statistically significant (with t-value of 4.895).

In conclusion, it can be argued that foreign aid has promoted FDI through its effects on public sector investment between 1981-1995. These results are consistent with what is being observed on the ground with a number of foreign firms springing up in and around major towns especially Kampala, Jinja and Mbarara.

While these empirical results based on a small sample suggest that foreign AID and other capital inflows have had a positive effect on FDI through their effects on public sector investment in the short-run, a developing country like Uganda must also be concerned with the long-run sustainability of the macroeconomic stability and external debt.

## 5. Concluding remarks

Investors feel that Uganda is a difficult location for a business operation since it is landlocked (imported raw materials and fuel have to travel long distances compared to her regional partners, Kenya and Tanzania), the infrastructure is poor (therefore high transport costs), utility services are expensive and unreliable, labour market conditions are bad (labour productivity is low with high wage demand), access to export markets is difficult, etc.

Policies that are conducive to sustained growth and macro-economic stability are essential elements of an enabling investment environment. They are as important to foreign investors as they are to domestic ones, as they determine risks and profitability of investment. During the last decade, Uganda pursued more liberal policies on trade and investment and other market-oriented reforms in the context of structural adjustment programmes. Although the full impact of these measures may take time to materialize, they would eventually lead to increased competitiveness and efficiency.

No doubt, foreign investors can and have a major role to play in the country's economic development. They should therefore be encouraged and facilitated.

The general message from our survey and empirical findings is that, from the viewpoint of attracting investment, the macroeconomic and political stability and policy consistency are much more important than the **level** of the incentives themselves. This view has important consequences for the macroeconomic policy-making and for the design of reform programs to promote investment.

From the macroeconomic viewpoint, the key policy implication is that to encourage the investment response to incentive schemes, macroeconomic stability and investor confidence in the sustainability of the policy framework are essential. Thus, the government must correct the unsustainable macroeconomic imbalances - such as large public deficits - because they are a primary cause of macroeconomic instability and uncertainty about future policies. Institutional reforms to ensure policy predictability, effective property rights, and stability of the basic `rules of the game' can contribute significantly to the investment response.

The bottom line, however, is that foreign investors feel that Uganda is a difficult location for a business operation since it is landlocked (imported raw materials and fuel have to travel long distances compared to her regional partners, Kenya and Tanzania), the infrastructure is poor (therefore high transport costs), utility services are expensive and unreliable, labour market conditions are bad (labour productivity is low with high wage demand), access to export markets is difficult, etc.

Nonetheless, the government continues with the efforts aimed at policy liberalization and introduction of new measures and mechanisms to attract and accelerate the flow of FDI. Some of these measures include, among other things, the following:

- Creating a climate favourable to investment which requires establishing a partnership between the government and the private sector on the basis of greater transparency in public administration and strong intermediate organizations such as chambers of commerce, business councils, professionals and associations, that can engage the state in a regular dialogue. The state has a critical role to play; but government need to encourage, stimulate, regulate, and complement the private sector, rather than compete with it or attempt to displace, discourage, and exploit it.

- Maintaining economic and political stability, as a general precondition for increased FDI, and to intensify regional cooperation. With greater regional integration, each individual country would have an increased market for particular goods.

In sum, Uganda has done a remarkable job in attracting FDI given the obstacles of history, context and inherent impediments. A continued process of foreign investment liberalisation is thus necessary to realize the full potential of foreign investment and allow foreign investment to complement local effort in accelerating the country's development. The hope is a promising one as the restoration continues.

# Appendix A

## Table IA: Comparison of investment incentives for selected Eastern and Southern African countries

| | Uganda | Kenya | Mauritius | Zambia | Zimbabwe | S. Africa | Remarks on Uganda |
|---|---|---|---|---|---|---|---|
| Exemption Import Duty & Sales Tax | Machinery & Equipment | | Machinery | Imported Machinery | Imported Machinery | Low rates Appx. 5% | Zero rated |
| Exemption Corporate tax & Withholding | 3-6 years | | | Low rate 15% farming exports on non traditional products. | | | A low rate say 10% for 10-15 years preferable. |
| Depreciation allowance | 100% outside K'la, Jinja-Entebbe | | | | | | Accelerate depreciation |
| Capital allowance | | 85% outside Nrb-Mbs 100% EPZ | | 10-20% | | 20% p.a. for machinery | |
| Training grant/allowance | | | | Tax deductible | Training for employees deductible. | | At priority sub-sector levels. |
| Factory bldgs. & Serviced land | | | Available | | | Available | Specific incentives and promotional techniques |
| Export incentive scheme | | | | | | 14% FOB value product exported | Require refinement and Action Programme |
| Export Marketing Assistance | | | | | | Exhibition and market research costs | Feasibility be considered |
| Export Loan Programme | | | | | Soft loans offered Low rates for SME's on capital items | Loans at 9% | At priority sub-sector levels |
| Establishment Grant | | | | | | Expansion of existing cap. 10.5% cost of operational assets 50% of stocks (2 month's sales) | At priority Sub-sector level |

| | Uganda | Kenya | Mauritius | Zambia | Zimbabwe | S. Africa | Remarks on Uganda |
|---|---|---|---|---|---|---|---|
| Export of Capital Goods | | | | | | Allowed write-off for tax 100% of outstanding debts. | |
| Relocation allowance | | | | | | R.1 million transport costs | Policy required |
| Depreciation allowance | | | | | | Exp. of capital nature deductible over 4 yrs. | Area of immediate focus |
| Research & Development | | | | Available | | | |
| Duty Drawback Scheme | Imported raw materials | | | | Imported raw materials | | Operationalise scheme |
| Training, Building & Equipment allowance | | | | | 50% of cost on bldgs. & equipment deductible | | Areas of study |
| Growth point areas | | | | | - Mining districts companies taxed 10% for 5 yrs.<br>- 15% cost of bldgs & equipment not taxed.<br>- Sales tax on capital goods refunded. | | Need be identified as part of setting priorities |
| Export Processing Zones | | - No Corporate tax for 10 yrs then at 25%<br>- No withholding tax.<br>- Exempt custom duties, VAT on plant, machinery & raw materials | Available | | - 5yr tax holiday and then 15%<br>- Exemption from withholding taxes<br>- Raw materials/capital goods imported duty free | | Concept to be operationalised looking at serviced land, estates, rural production zones. |
| Export retention scheme | 100% | | | | 100% | | |

**Source: UIA - A background paper prepared for the taskforce for the formulation of private sector national strategy and programme of action.**

## Appendix B

**Table B1: Location of the firms**

| | Frequency | Percent |
|---|---|---|
| Kampala | 41 | 67.3 |
| Masindi | 1 | 1.6 |
| Mpigi | 2 | 3.2 |
| Tororo | 3 | 4.9 |
| Jinja | 4 | 6.6 |
| Iganga | 1 | 1.6 |
| Kasese | 2 | 3.2 |
| Mbarara | 7 | 11.5 |
| Total | 61 | 100.0 |

**Table B2: Country of origin of investor**

| | Frequency | Percent |
|---|---|---|
| Africa | 29 | 47.5 |
| Britain | 14 | 23.0 |
| Other European countries | 5 | 8.2 |
| Other countries | 3 | 4.9 |
| Not applicable | 10 | 16.4 |
| Total | 61 | 100.0 |

**Table B3: Point of first contact**

| | Frequency | Percent |
|---|---|---|
| Local business people | 5 | 8.0 |
| foreign investors in Uganda | 2 | 3.4 |
| Well established persons | 7 | 11.5 |
| Presidential mission abroad | 5 | 8.0 |
| UIA | 7 | 11.5 |
| Not applicable | 35 | 57.4 |
| Total | 61 | 100.0 |

**Table B4: Do you benefit from any UIA incentives?**

| | Frequency | Percent |
|---|---|---|
| yes | 54 | 88.5 |
| no | 7 | 11.5 |
| Total | 61 | 100.0 |

**Table B5: Main market of your product(s)**

| | Frequency | Percent |
|---|---|---|
| Domestic | 54 | 88.5 |
| East Africa | 2 | 3.3 |
| Europe | 3 | 4.9 |
| Others | 2 | 3.3 |
| Total | 61 | 100.0 |

**Table B6: Do you have problems in securing raw materials/inputs?**

| | Frequency | Percent |
|---|---|---|
| yes | 27 | 44.4 |
| no | 24 | 39.3 |
| non response | 10 | 16.3 |
| Total | 61 | 100.0 |

**Table B7: What do you think of Uganda's future economic outlook?**

| | Frequency | Percent |
|---|---|---|
| development | 53 | 86.8 |
| decline | 6 | 9.9 |
| uncertain | 2 | 3.3 |
| Total | 61 | 100.0 |

**Table B8: Which government agencies cause greatest difficulties?**

| | Frequency | Percent |
|---|---|---|
| URA | 34 | 56.0 |
| Customs department | 5 | 8.2 |
| UEB | 10 | 16.4 |
| UPTC | 6 | 9.8 |
| Ministry of Trade & Industry | 2 | 3.3 |
| Ministry of lands | 2 | 3.3 |
| non response | 2 | 3.3 |
| Total | 61 | 100.0 |

**Table B9: Main motivating factor for coming to invest in Uganda**

| Motivating factors | Number | Percentage | Rank |
|---|---|---|---|
| Enabling environment, that is, generally favourable economic conditions and political climate | 25 | 41.0 | 1 |
| Availability of specific resources | 6 | 9.8 | 4 |
| Promotion/incentives offered by the Uganda government | 10 | 16.4 | 2 |
| Promotion/incentives offered by the home country | 1 | 1.6 | 8 |
| Previous trad relations with Uganda | 7 | 11.5 | 3 |
| Long established personal/family relations | 3 | 4.9 | 6 |
| Favourable information from press/other investors | 2 | 3.2 | 7 |
| My competitors made similar move first | 0 | 0.0 | 9 |
| Cost of labour | 4 | 6.6 | 5 |
| Size of market | 4 | 6.6 | 5 |

**Table B10: Most important incentive**

| MOST IMPORTANT INCENTIVE | FREQUENCY | PERCENTAGE | RANK |
|---|---|---|---|
| Duty exemption/rebate on plant, machinery and construction materials | 19 | 31.1 | 1 |
| Duty exemption/rebate on industrial inputs | 11 | 18.0 | 2 |
| Tariff protection | 7 | 11.5 | 3 |
| Corporate tax holidays | 19 | 31.1 | 1 |
| Ease of remittances of dividends and profits | 4 | 6.6 | 4 |
| Privileged access to local credit | 1 | 1.6 | 5 |

**Table B11: Main sector of activity**

| SECTOR | FREQUENCY | PERCENTAGE | RANK |
|---|---|---|---|
| Agriculture and forestry | 7 | 11.5 | 3 |
| Fishing | 2 | 3.3 | 4 |
| Manufacturing | 42 | 68.9 | 1 |
| Construction | 2 | 3.3 | 4 |
| Trade and restaurants | 8 | 13.1 | 2 |

**Table B12: Main factor considered in making investment decisions**

| MAIN FACTOR CONSIDERED | FREQUENCY | PERCENT | RANK |
|---|---|---|---|
| Profitability in the sector of operation | 35 | 57.4 | 1 |
| Incentives packages offered by government | 13 | 21.3 | 3 |
| Access and reliability to basic utilities, e.g. water, electricity, phones, etc. | 9 | 14.8 | 4 |
| Local contribution to the project | 6 | 9.8 | 4 |
| Intellectual property protection | 4 | 6.6 | 5 |
| Returns to your investments | 13 | 21.3 | 3 |
| Ease of remittance of dividends and profits | 4 | 6.6 | 5 |
| Cheap labour | 1 | 1.6 | 6 |
| Political stability and enabling economic environment | 14 | 23.0 | 2 |

**Table B13: Main contribution of your investment to Uganda**

| MAIN CONTRIBUTIONS | FREQUENCY | PERCENTAGE | RANK |
|---|---|---|---|
| Taxes/fees paid to the treasury | 23 | 37.7 | 1 |
| Providing employment to Ugandans | 16 | 26.2 | 2 |
| Net increase in investment(Capital formation) | 6 | 9.8 | 4 |
| Net increase in exports (foreign currency savings) | 2 | 3.3 | 6 |
| Import substitution ability (foreign currency savings) | 10 | 16.4 | 3 |
| Transfer of new technology and managerial skills | 4 | 6.6 | 5 |

**Table B14: Main problems in operating business**

| PROBLEM | FREQUENCY | PERCENTAGE | RANK |
|---|---|---|---|
| Problems with basic infrastructure e.g. water,electricity, telephone, etc. | 13 | 21.3 | 1 |
| Availability and/or cost of raw materials and other inputs | 8 | 13.1 | 3 |
| Problems with financing | 9 | 14.8 | 2 |
| Problems with distribution network(transport) | 5 | 8.2 | 6 |
| Restrictive government regulations | 4 | 6.6 | 6 |
| Cost and/or quality of labour | 3 | 4.9 | 7 |
| Market conditions (level of demand, competition) | 5 | 8.2 | 5 |
| Problems to get land/industrial space | 3 | 4.9 | 7 |
| Taxes on raw materials finished products | 2 | 3.3 | 9 |
| Competition from imported similar products | 6 | 9.8 | 4 |
| Intellectual property protection is too weak | 3 | 4.9 | 8 |

**Table B15: Main problem relating to recruitment/management of labour**

| LABOUR RECRUITMENT/MANAGEMENT PROBLEMS | FREQUENCY | PERCENTAGE | RANK |
|---|---|---|---|
| Lack of middle management/technicians | 19 | 31.1 | 2 |
| Lack of skilled labour | 13 | 21.3 | 3 |
| High wage demand coupled with poor work culture leading to low productivity | 21 | 34.4 | 1 |
| Can't lay off or fire workers | 3 | 4.9 | 4 |
| Trade union restrictions | 2 | 3.3 | 5 |
| Regulations governing expatriate personnel | 3 | 4.9 | 4 |

**Table B16: Main recent investment initiative**

| MAIN RECENT INVESTMENT INITIATIVE | FREQUENCY | PERCENTAGE | RANK |
|---|---|---|---|
| Launch of new activity/product | 22 | 36.1 | 1 |
| Expansion of existing operations | 17 | 27.9 | 2 |
| Improvement of the effectiveness of existing operations | 15 | 24.6 | 3 |
| Simple replacement of existing equipment with minor improvements | 7 | 11.5 | 4 |

**Table B17: Sources of finances**

| SOURCES OF FINANCING | FREQUENCY | PERCENT | RANK |
|---|---|---|---|
| New equity from foreign parent company | 12 | 19.7 | 2 |
| New equity from Ugandan private/public company | 7 | 11.5 | 3 |
| Loan from foreign parent company | 12 | 19.7 | 2 |
| Loan from Ugandan banks | 13 | 21.3 | 1 |
| Loan from foreign banks | 7 | 11.5 | 3 |
| Supplier credit | 5 | 8.2 | 4 |
| Others | 5 | 8.2 | 4 |

**Table B18: Main problem in securing raw materials/inputs**

| IF YES, MAIN PROBLEMS | FREQUENCY | PERCENT | RANK |
|---|---|---|---|
| Poor quality | 11 | 18.0 | 3 |
| Prices are not competitive | 9 | 14.8 | 4 |
| Supply is not reliable | 18 | 29.5 | 1 |
| Local suppliers are too few or non existent | 15 | 24.6 | 2 |
| others | 8 | 13.1 | 5 |

**Table B19: Perception of sources of non-commercial risks**

| PERCEPTION OF SOURCES OF NON - COMMERCIAL RISKS | FREQUENCY | PERCENT | RANK |
|---|---|---|---|
| Expropriation | 3 | 4.9 | 5 |
| War or civil disturbance | 11 | 18.0 | 2 |
| Unpredictable political climate | 4 | 6.6 | 4 |
| Failure to respect contractual obligations by government | 10 | 16.4 | 3 |
| Reversal of policies/incentives granted by government | 33 | 54.1 | 1 |

**Table B19: Main future plan of operation**

| FUTURE PLAN OF OPERATIONS | FREQUENCY | PERCENT | RANK |
|---|---|---|---|
| Maintain operation at current level | 5 | 8.2 | 5 |
| Expand operation | 44 | 72.1 | 1 |
| Introduce a new product | 18 | 29.5 | 2 |
| Invest in new equipment | 15 | 24.6 | 3 |
| Improve workers' technical training | 15 | 24.6 | 3 |
| Improve management skills | 9 | 14.8 | 4 |

**Table B20: main problem in dealing with government agencies**

| PROBLEM IN DEALING WITH GOVERNMENT AGENCIES | FREQUENCY | PERCENT | RANK |
|---|---|---|---|
| Failure to respect contractual obligations | 5 | 8.2 | 5 |
| Legislative insecurity, including increases in taxation after a project has been implemented | 18 | 29.5 | 2 |
| Corruption resulting from red tape and a multitude of authorizations required to do business | 26 | 42.6 | 1 |
| Excessive legalism and lack of precision in legal texts | 3 | 4.9 | 6 |
| slow and arbitrary decision taking | 18 | 29.5 | 2 |
| incompetent/rude officials | 14 | 23.0 | 4 |
| Others | 2 | 3.3 | 6 |

**Table B21: Main problem related to government regulations**

| PROBLEM RELATED TO GOVERNMENT REGULATIONS | FREQUENCY | PERCENT | RANK |
|---|---|---|---|
| Import and export regulations | 16 | 26.2 | 2 |
| Tax related regulations | 27 | 44.3 | 1 |
| Licensing requirements and processing | 2 | 3.3 | 5 |
| Restrictions on employment of expatriate staff | 6 | 9.8 | 3 |
| Requirements to use local inputs o poor quality | 3 | 4.9 | 4 |
| ownership of land | 6 | 9.8 | 3 |
| The proportion of ownership open to foreign firms | 1 | 1.6 | 6 |

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