Impact of investment and growth in our livelihoods

The Uganda Investment Authority on June 21 organised an investment and consultative conference at Hotel Africana, Kampala.

Morrison Rwakakamba, chief executive

The subject of investment and economic growth is at the core of millions of livelihoods in Uganda and our ability as a country to achieve and sustain structural transformation.

That more domestic and foreign investment leads to economic growth and development is not more of a settled question. Details on alignment of such investments to national interests, prioritisation of sectors and jobs stimulation are key.

On the status of FDI, datasets from various sources show that Uganda received in a one-time basis; elsewhere in Uganda, 75% are deductible from a company’s income on a one-time basis; elsewhere in Uganda, 75% are deductible from a company’s income on a one-time basis.

The Uganda Investment Authority (FDI) and domestic investment in the development of Uganda’s economy. Below are highlights of his paper. Full version is on www.newvision.co.ug

The face of country risk profile and how it impacts domestic and foreign investors.

First: Risk profile scale affects service industry and manufacturing/ agricultural sectors differently.

Most investors in services sector such as banks, insurance companies etc. do less capital investments and can easily repackage profits in case of instability. They are big here, but you cannot see their physical investment footprint.

For example, only lease - from buildings they occupy, equipment they use, furniture etc. In case of any form of instability, they can close the very next day. This is very much different for example manufacturing and agricultural sector.

These invest heavily and have a long-term outlook and are, therefore, keen on long-term stability and certainty to invest meaningfully. And these are the sectors that have potential to create more jobs.

Attracting these kinds of investors is a dream for every country. Domestic investors would play a big role here.

Second: For domestic investors, risk profile is different. Because they are citizens, they mostly own land and understand political dynamics of their country – they are less sensitive to latent political risks and have vested interests to invest long term. In pursuing long-term investments in agriculture and manufacturing, focused incentives should be targeted to domestic investors. Through structured joint ventures, more foreign investors can be patterned with local investors to expand scale, skills training and others.

The potential for curbed FDI is critical to expand in this area.

Third: Foreign and domestic investors face different and mostly externalised credit incentives. Foreign investors working through special purpose vehicles or singularly have access to low priced credit in their home countries.

Countries like Japan, Israel, Germany, Switzerland and Sweden – interest rates are less than 1%. Bank of Uganda pushed the bank rate down from 11% to 10% this week.

But is not the commercial banks keeping their lending rates at over 20%? Why are development banks still complex for small and medium level domestic investors? UBA as champion of investors should be at the centre of these negotiations.

And also over the world, political risk profile gravitates on issues of constitutionalism and political transitions. Uganda has been attributed with institutions that should work to guarantee stability and build confidence for long-term domestic and foreign investments.

But how are we doing as a country?

Uganda is a unique location in the heart of sub-Saharan Africa in East Africa and lies aside the equator.

Ugandans are very keen to find partnerships that create a viable market for business (EAC + Ethiopia has over 286 million people). With poverty reduction and increase in purchasing power across these countries, this is becoming a formidable market and investment destination.

Potential investors (domestic and foreign) have access to a well-regulated and highly liberalised environment. All sectors are open for investment plus a free movement of capital to and from the country.

However, while all this and the 2013 Index of Economic Freedom, Uganda was ranked the eighth freest economy out of the 54 sub-Saharan Africa countries. A number of reports show that the business-operating environment allows full the reparation of profits after the mandatory taxes have been paid, as well as 100% foreign ownership of private investments. The incentive regime is structurally entrenched in the country’s tax laws making them nondiscriminatory and accessible to both domestic and foreign investment depending on the sector and level of investment.

Incentives to foreign and domestic investors

Uganda’s fiscal incentive package for both domestic and foreign investors provides generous capital recovery terms, particularly for medium- and long-term investors whose projects entail significant plant and machinery costs (up to 80% or even more) and long-term training. For example, in Kampala, 50% of capital allowances for plants and machinery are deductible from a company’s income on a one-time basis; elsewhere in Uganda, 75% of those capital allowances are deductible.

What do investors look for when making investment decisions?

Economists will say the bottom-line is profit and intermediaries will tell us it is the mark-up! Yes, but that is the end game.

The process game is more critical.

Merchants of capital are very curious and mostly steady.

They keenly assess the risk profile of countries before they invest. They also have in mind the most political, economic and social indicators. Documents like World Bank’s Doing Business reports, Index of Economic Freedom ranking, transparency and accountability scores, indexes, central bank’s monthly monetary reports etc. are some of the documents they scrutinise.

With all the information, they assess political stability to make decisions on long-term or short-term investments, amount of investment etc. They assess macro and micro economic indicators (inflation, interest rates, GDP, per capita income, purchasing power parity etc.).

They look through the ease of doing business, profit repatriation, capital transfer etc. They look at property rights regime and access to cooperation factors like land regime etc. They look at investment codes and incentive regime.

They look at efficiency of justice system e.g. speed and fairness in settling of business disputes; they look at laws and practice in protection of intellectual property rights. They look at human resources capital (skills, language etc.). It is a long list and some factors keep changing. These factors for some include weather and social affinities.

For domestic investors, risk profile and incentives should be targeted to domestic investors.

For example, the minimum capital investment required for a foreign investor to be eligible to invest in the country in virtually any sector, apart from those that may compromise the country’s security, is $100,000. Uganda’s labour is highly trainable, English speaking and the cost competitiveness is favourable in Africa.

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The processing of oil will generate more revenue which, if well utilised, will enable the Government to provide the much needed social and economic services such as employment, quality health and education, clean water, good roads and many others. To improve the living standards of Ugandans.

Transition to oil economy is still complex for small and medium enterprises.

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Bulisa compensation: Avoid past mistakes

recently, during our field visit in Ngwo sub-county in Bulisa district by the Civic Response on Environment and Development (CRED), I noticed various posters of cut-off date announcements for the Resettlement Action Plan (RAP) 1 Industrial Area.

According to the information on the posters, the final cut-off date for the area demarcated for the industrial area was May 16, 2017. The cut-off date is when the eligibility for resettlement and compensation is established and completed. After the cut-off date, any social and economic activities put up in the demarcated industrial area are not eligible for compensation or resettlement.

As government and joint venture partners (CNOCO Uganda Ltd, Total E&P Uganda and Tullow Oil Ltd) move in to the development phase that will lead to the production of oil, one of the facilities to be developed is the Industrial Area.

The development of the industrial area, which includes the central processing facility (CPF), access roads, operational camps and yards will require permanent acquisition of land. Total E&P Uganda and Tullow Oil Uganda, assisted by ATACAMA Consulting in association with Synergy Global Limited and Nomad Consulting have identified and completed the demarcation of the land required for the Industrial Area within Ngwo sub-county in Bulisa.

People claim they were told not to build any new houses or grow crops for they will not be considered for compensation. Yet, they have not yet been communicated when they will receive their compensation.

So why do the project implementers find it okay setting the cut-off date without documenting who affected people will be compensated? Which of the two is more important and of interest to the affected people? The residents of Ngwo Runyoro would be interested to know when they will get compensation or resettled. Setting the cut-off date without disclosing to people when they will be compensated is similar to denying them their rights to land. This is because you have restricted them from conducting certain activities on their land.

That is stopping people from using their property before compensation is paid.

Article 26 of the Constitution

The fourth paragraph of Article 26 of the Constitution provides that:

(1) Every person has a right to own property and

(2) No person shall be compulsorily deprived of property or any interest in or right over property of any description except where the following conditions are satisfied:

(a) the taking of possession or acquisition is necessary for public use, (b) the compulsory taking of possession or acquisition of property is in accordance with a law which makes provision for prompt payment of fair and adequate compensation, prior to the taking of possession or acquisition of the property.

The writer is with Civic Response on Environment and Development

Read the full version on www.newvision.co.ug

COMMENT

Doris Atwijukire

The processing of oil will generate more revenue which, if well utilised, will enable the Government to provide the much needed social and economic services such as employment, quality health and education, clean water, good roads and many others. To improve the living standards of Ugandans. However, while all this and the cut-off date for RAP 1 Industrial Area was set, none of the affected people and local leaders I talked to seem to know exactly when the compensations will be paid.

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