Morrison Rwakakamba, chief executive

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, the Chief Executive Officer of the Agency for Transformation — a think and do tank on agricultural and environmental policy — made a presentation of the role of foreign domestic investment (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

Bank of Uganda has pushed bank rate down from 11% to 10%

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 very much 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's FDI was $1.418b in 2013 and $1.74b in 2012.

The top FDI sources in 2013 were India (111 projects), China (62 projects), the United Kingdom (18 projects), Pakistan (16 projects), Eritrea (14 projects), Kenya (13 projects) and the United States (8 projects).

The major recipient sectors of foreign direct investment during the year were mining and quarrying accounting for 49% (or sh1, 106.5b) of the total FDI. This was followed by information and communication technology (18.1% or sh409b), finance and insurance (16.7% or sh377.3b), and manufacturing (7.6% or sh171b).

Uganda Investment Authority's current datasets (2016/2017) on FDI and domestic investment and sectors where investment is ongoing show licensed projects. I did not find current data on actual projects that materialised off ground. Still, the pointed out numbers in past years have been mostly responsible for an average GDP growth of 5% over the past 20 years.

Therefore, the bigger issue is how to expand and cleverly align foreign and domestic investment to deliver solid economic growth and structural transformation for Uganda. Structural transformation is critical to attainment of first world status.

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 look at trends mostly political, economic and social indicators. Documents like World Bank's Doing Business reports, Index of Economic Freedom ranking, transparency and accountability scorecards, corruption 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, percapita 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 cooperant 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.

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 repatriate profits in case of instability. They are big here, but you cannot see their physical investment footprint.

They, for example, only lease - from buildings they occupy, equipment they use, furniture etc. In case of any forms 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 transfer, among others. The potential for curated 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 why are commercial banks keeping their lending rates at over 20%? Why are development banks still complex for small and medium level domestic investors? UIA as champion of investors should be at the centre of these negotiations.

Four: All over the world, political risk profile gravitates on issues of constitutionalism and political transitions. Uganda has a firm Constitution and 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 enjoys a unique location at the heart of sub-Saharan Africa in East Africa and lies astride the equator.

Uganda enjoys pivotal trade 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 economy in which all sectors are open for investment plus a free movement of capital to and from the country.

According to official documents, including the 2013 Index of Economic Freedom. Uganda was ranked the eighth freest economy out of the 46 sub-Saharan Africa countries. A number of reports show that the business-operating environment allows the full repatriation 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.

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 compares favourably in Africa.

Incentives to foreign and domestic investors

Uganda's fiscal incentive package for both domestic and foreign investors provide generous capital recovery terms, particularly for medium- and long-term investors whose projects entail significant plant and machinery costs and involve significant 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.

Doris Atwijukire

Buliisa compensation: Avoid past mistakes

Recently, during our field visit in Ngwedo sub county in Buliisa 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. Any new persons that move or settle into the demarcated area will equally not be eligible for compensation or resettlement.

As government and joint venture partners (CNOOC Uganda Ltd, Total E&P Uganda and Tullow Oil Uganda Ltd move in to the development phase that will lead in 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 Ngwedo sub-county in Buliisa district.

stopping people from using their property before compensation contravens Article 26 of the Constitution

The processing of oil will generate more revenues 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 other amenities to improve the living standards of Ugandans. However, while 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.

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 disclosing when affected people will be compensated? Which of the two is more important and of interest to the affected people? The residents of Ngwedo would be interested to know when they will get compensated 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 which is in contravention of Article 26 of the Constitution.

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 made under a law which makes provision for prompt payment of fair and adequate compensation, prior to the taking of possession or acquisition of the property.

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

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