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# PROMOTING FOREIGN DIRECT INVESTMENT (FDI):THE CASE OF UGANDA

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## ABSTRACT

This study investigated the effects of investment promotion on investments in general, and foreign direct investment in particular, in Uganda, since the enactment of the Investment Code Act, 1991. It used mostly secondary data and interviews on investments in Uganda. Analysis was qualitative. The findings showed that Uganda Investment Authority has been promoting investments through trade fairs, missions abroad and investment conferences since 1991. A number of opportunities existed in the entire economy, but some priority sectors were targeted. These included Agriculture, ICT, Energy, Health, Education, Mining and Services such as tourism and finance. In terms of countries, UK, USA, Kenya (EAC), South Africa, India, China, UAE and Singapore were targeted as sources of investment into Uganda. Based on the number of firms licensed, the promotion efforts were effective between 1991 and 1995, but since then other factors have determined foreign direct investment into Uganda such as the discovery of oil in the Albertine region and the credit crunch of the 2009. However, there were some inadequacies and failures.

The Act excluded foreign investors from participation in agribusinesses which is so critical and which contributes about 40% to the country's GDP. In the mining sector, despite huge mineral potentials, the Authority neither provided investors with important investments information like geological data and mineral targets that could be used as a basis for attracting serious investors, nor extension services, training and mining equipment. Also, the Government continued to under-fund the targeted sectors such as tourism. To improve the effectiveness of investment promotion, it was recommended that Government should amend the Act to allow foreigners to engage in agricultural businesses; make available important investment information and other services to investors; provide adequate budgetary support for the targeted sectors; improve infrastructure, especially in power and transportation; and tackle the issue of corruption in the country.

**KEYWORDS:** Investment Promotion, Investment Opportunities, Foreign Direct Investment, Trans-National Companies

## INTRODUCTION

### Background of the Study

In the quest for development, countries are increasing looking beyond their borders for the much-needed resources in the bid to satisfy the growing desires of their citizens for improved standards of living. Thus, in spite of their natural resource endowment and other competitive advantages they may have, countries are striving to position themselves in a good stead to attract foreign investments which usually result from the activities of Trans-National Companies (TNCs). This usually involves deliberate policies and activities meant to position them as destinations of choice for foreign investment. Investment promotion is key in these efforts.

Uganda has had an impressive record of attracting foreign investments, with the recent oil discovery in the Albertine region heightening investor interest. The country has continued to attract investors with over 4,000 projects licensed since the investment body was set up in 1991. Uganda's accumulated planned investment within this period is $12b, with over 440,000 jobs created. However, despite the attractive investment prospects in the country, and the East African Community (EAC) region as a whole, non-tariff barriers (NTBs) like the poor state of infrastructure and power shortages still hamper trade and investment. The absence of a robust railway network undermines trade and investment in the region's bulky resources that include agricultural products and minerals. The roads linking the region are in a sorry state, thus, pushing up the cost of doing business (The New Vision Newspaper, 10th May, 2010).

## INVESTMENT PROMOTION

### Scope of Investment Promotion

Countries around the world compete fiercely to attract Foreign Direct Investment (FDI). Policy makers, especially those in developing countries, hope that FDI inflows will bring much-needed capital, new technologies, marketing techniques and management skills. FDI is expected to create jobs and increase the overall competitiveness of the host economy (Torfinn Harding and Beata Javorcik, 2007). Thus countries, especially the developing ones, have engaged in one form of investment promotion or the other to attract foreign direct investment.

Promotion involves disseminating information about a product, product line, brand, company, or even a country. It is one of the four key aspects of the marketing mix. The other three elements are product, pricing, and place (distribution). It is generally sub-divided into two parts: "above the line" and the "below the line." The former is when it is through the media such as TV, radio, newspapers, Internet and Mobile Phones in which the advertiser pays to place the advert. The latter uses other promotional methods and mostly is intended to be subtle enough for the consumer not to be aware that promotion is taking place. Examples of the latter include sponsorship, product placement, endorsements, sales promotion, merchandising, direct mail, personal selling, public relations, and trade shows. A promotional plan can have a wide range of objectives, such as sales increases, new product acceptance, creation of brand equity, positioning, competitive retaliations, or creation of a corporate image (PST, 2009).

Investment promotion activities can be grouped into four areas viz: (i) national image building, (ii) investment generation, (iii) investor servicing, and (iv) policy advocacy. Image building activities aim to build a perception of the country as an attractive location for FDI (where). Investment generation involves identifying potential investors who may be interested in establishing a presence in the country, developing a strategy to contact them and starting a dialogue with the purpose of having them commit to an investment project (who). Investor servicing involves assisting committed investors in analyzing business opportunities, obtaining permits and approvals for establishing a business in the host country and maintaining business operations. Policy advocacy encompasses initiatives aiming to improve the quality of the investment climate and identifying the views of private sector in this area (Harding Torfinn and Beata S Javorcik, 2007).

Investment promotion practitioners believe that the most effective way of attracting FDI is to focus on a few priority sectors or targeting rather than attempt to attract all types of foreign investors. Thus, an agency not engaged in targeting will promote its country as a good place to do business, while one targeting particular sectors will emphasize why its country is an ideal location for investors operating in those industries. Similarly, the former will attend many different types of fairs and conferences while the latter will be present only at events specific to the industries it aims to attract.

The idea behind targeting is that a more focused message tailored and delivered to a narrow audience will be more effective than general investment promotion activities (Harding Torfinn and Beata S Javorcik, 2007).

However, investment promotion is fundamentally about marketing a country as a location for investment. The Foreign Investment Advisory Services (FIAS) provides assistance in improving the products offered by countries by providing business enabling environment and investment policy advice and assistance in designing institutional frameworks for investment promotion. The technical assistance arm of the Multilateral Investment Guarantee Agency (MIGA) assists Investment Promotion Agencies (IPAs) in developing and implementing investment promotion strategies (FIAS, 2006).

One of the main purposes of investment promotion is to reduce the costs of FDI by providing information on business conditions and opportunities in the host economy and by helping foreign investors cut through bureaucratic procedures. Investment promotion activities encompass: advertising, investment seminars and missions, participation in trade shows, one-to-one direct marketing efforts, facilitating visits of prospective investors, matching prospective investors with local partners, helping obtain permits and approvals, preparing project proposals, conducting feasibility studies and servicing investors whose projects have already become operational. It can also involve the execution of International Investment Agreements (IIAs). As obtaining information on investment opportunities in developing countries tends to be more difficult than gathering data on industrialized economies, investment promotion should be particularly effective in a developing country context (Torfinn Harding and Beata Javorcik, 2007).

Technological progress which allows firms to split various stages of the production process, declines in transport and communication costs, increasing openness of countries to foreign capital, and international trade have increased the attractiveness of spreading the production chain across various geographic locations. This phenomenon has led to a spectacular increase in global FDI flows thus giving more countries an opportunity to become part of the global production chains. But it has also intensified competition for FDI (Torfinn Haring and Beata Javorcik, 2007).

In response, many countries have set up Investment Promotion Agencies (IPAs) as a key part of their strategy to attract foreign investors. There are presently more than 160 IPAs at the national level and over 250 at the sub-national level. This is a relatively new phenomenon as only a handful of these agencies existed 20 years ago. In 2004, the total spending of the 82 IPAs that reported their budget figures in the IPA Census reached almost a billion dollars - a quarter of this amount was spent specifically on investment promotion. In addition, some IPAs are empowered to provide support in the form of tax holidays or other quasi-fiscal measures (Torfinn Harding and Beata Javorcik, 2007).

FIAS and MIGA have collaborated to design country and continental investment promotion in Cambodia, China, Philippines and Africa. In Cambodia, FIAS collaborated with MIGA in assisting the Cambodian Investment Board (CIB) to prepare a strategic investment promotion plan. Also, FIAS facilitated a strategic planning workshop to assist CIB staff in the development of options for engaging in investment promotion and a framework for decision making. Further, FIAS promised to assist the CIB to implement its strategic plan of investor servicing in 2007 (FIAS, 2006). In China, FIAS and MIGA collaborated to assist the Ministry of Commerce in developing a national investment promotion strategy. In 2005, they co-organized several regional workshops to discuss sub-national investment promotion and to strengthen investment climate in China’s economically disadvantaged western and central provinces.

A planned Memorandum of Understanding (MOU) between the Government of China, FIAS, and MIGA promised a multi-year collaboration to strengthen the operation of provincial Investment Promotion Agencies (IPAs). In a follow-up project, emphasis would be to use MIGA's experience in building the organizational capacity of local IPAs to implement strategies for attracting foreign and domestic investment (FIAS, 2006).

In Philippines, FIAS assisted the Philippines Board of Investment (BOI) in developing a Retention, Expansion and Diversification (RED) program. The program focused on the 'aftercare' of foreign investors to maintain the satisfaction of current investors and where possible to persuade investors to strengthen and expand their activity. In addition, FIAS identified the need for an enhanced advocacy role for the B0I and more effective coordination between government agencies responsible for servicing investors. MIGA is assisting the BOI in implementing the RED program and FIAS recommendations (FIAS, 2006).

In Africa, FIAS and MIGA have developed a joint strategy and review their work programs on a weekly basis, together with that of PEP-Africa, to ensure that they capture maximum opportunities for linkages. Numerous joint programs have been implemented among others in Ethiopia, South Africa, Namibia, Sierra Leone, Liberia and Madagascar, and similar integrated programs were being developed in another six countries. As new requests are received, both agencies discuss them to prepare a response offering the most appropriate package from both agencies to meet the client's needs (FIAS, 2006).

## Related Studies and Experiences on Investment Promotion and FDI Inflow

Nowadays, competition among the countries that are trying to attract foreign capital is high due to the limited amount of foreign capital available and the increasing desire among countries wishing to get benefits from inward FDI. However, the factors that create the investment climate in a country and determine its attractiveness for foreign investors are numerous and complex. Both theoretical and empirical evidence show that investment promotion has had an important impact on the amount and location of inward FDI. To better utilize FDI for economic development purposes with the trends of FDI flows in the world, a targeted investment promotion strategy can play a powerful economic development role as it influences both the attractiveness of location (where) for inward investment and the benefits accruing to the local economy. However, there is no simple 'one for all' and 'one for always' policy framework for every developing country, as each has different comparative advantage and is in different stage of development (Jinkang Zang, 2005).

In Industrialized countries, promotion was found to be the most significant factor, whereas in the developing countries the income and political stability issues were more important. It has also been found that the net present value of proactive investment promotion is almost $4 for every $1 expended. Specially, investment promotion was found to be most effective when it: overcame information asymmetries; compensated for the imperfect functioning of international markets which makes parent companies reluctant to consider new production sites; and led to product differentiation of the host country as a location for targeted activities (Wells and Wints, 1990).

The effects of promotion on inward FDI are mixed. In some countries, there was a dramatic increase in FDI inflows with little or no investment promotion. China is the best example supporting this fact, mainly due to its large market opportunities and cheap and productive labour. Indonesia is another case where significant amounts of FDI have followed policy reforms without investment promotion. Thailand and Mexico are some other examples that raise the question of the necessity of investment promotion, despite the expenses involved. However, for some small countries, with no economies of scale advantages, it is very hard for them to attract large amount of FDI. Thus, there are good cases, such as Singapore and Hong Kong that have attracted significant inward FDI through promotion (Jinkang Zang, 2005).

As red tape in host countries and information asymmetries constitute a significant obstacle to investment flows across international borders, an important policy question is: what can aspiring FDI destinations do to reduce such barriers? A study uses newly collected data on 124 countries to examine the effects of investment promotion on inflows of US FDI. It tests whether sectors explicitly targeted by investment promotion agencies in their efforts to attract FDI receive more investment in the post-targeting period, relative to the pre-targeting period and non-targeted sectors. The results of the analysis are consistent with investment promotion leading to higher FDI flows to countries in which red tape and information asymmetries are likely to be severe. The data suggest that investment promotion works in developing countries but not in industrialized economies (Harding Torfinn and Beata S Javorcik, 2007).

Again, does investment promotion cause higher FDI inflows? It should be noted that the majority of IPAs target particular sectors in their efforts to attract FDI. Sector targeting is considered to be best practice by investment promotion professionals because more intense efforts concentrated on a few priority sectors are likely to lead to greater FDI inflows than general, less intense attempts to attract FDI. If investment promotion is effective, then priority sectors would experience an increase in FDI inflows after targeting starts relative to non-priority sectors during the same time period (Torfinn Harding and Beata Javorcik, 2007).

The detailed information on priority sectors and the timing of FDI targeting activities in developing countries combined with the figures on flows of US FDI, disaggregated by host country and sector, suggest that investment promotion efforts are associated with higher FDI inflows to developing countries (Torfinn Harding and Beata Javorcik, 2007). Priority sectors receive more than twice as much FDI as sectors untargeted by IPAs. While the magnitude of the effect may seem large, it is not implausible. If we consider only positive flows of US FDI to developing countries, the median sector-level flow to a host country was equal to $11 million in 2004. Thus, the estimated effect of investment promotion translates into an additional annual inflow of $17 million for the median sector-country combination. A quick look at the amounts TNCs actually invest in developing countries reveals that FDI inflows of that magnitude are common. For example, in 2005 Wal-Mart planned to open 70 new units in Mexico with an expected investment of $736 million and in 1995 Pepsi announced a US$55 million investment in a snack-food company in South Africa, while Boeing McDonnell Douglas invested $31 million in the Czech Republic in 1998 (Torfinn Harding and Beata Javorcik, 2007).

If investment promotion works, it should be seen that agencies following the best practice model are more effective. For instance, it is generally believed that a quasi-government status is the most appropriate IPA setup. Quasi-governmental bodies benefit from their links to the government when assisting investors in getting regulatory approvals and lobbying authorities on behalf of foreign companies. At the same time, they have more flexibility in planning their activities and are not bound by government pay scales and hiring and firing practices, which make them better positioned to engage the private sector and respond quickly to changing market conditions. Results confirm that quasi-governmental bodies are more effective at attracting FDI than subunits of ministries (Torfinn Harding and Beata Javorcik, 2007).

The large empirical literature on the relationship between FDI and economic growth has produced mixed results. Despite the ambiguous evidence on the benefits of FDI, investment promotion has become an active area of policy and a growing number of nations are offering services and incentives to attract investment by multinational firms. A study investigates whether national investment promotion activities succeed in increasing the volume of inward investment or whether this expenditure merely sub sidises investments which would have occurred in its absence. Results indicate a positive effect of investment promotion on FDI inflows is robust across various empirical specifications (Charlton, Andrew and Davis, Nicholas, 2007).

International Investment Agreements (IIAs) are an element of investment promotion strategies as contracting parties seek to encourage foreign investment through the granting of investment protection. Notwithstanding the great importance of a stable and predictable international legal framework for attracting foreign investment, existing IIAs might not live up to their full potential as regards their investment promotion objective (UNCTAD, 2002). Despite the fact that these agreements seek investment promotion and protection, their emphasis is clearly on the latter part with investment promotion primarily perceived as a side effect of investment protection. However, this effect - an increase in investment flows - remains often behind the expectations of the contracting parties (UNCTAD, 2002).

An UNCTAD survey of IIAs shows that only a minority of IIAs includes explicit investment promotion provisions. Their content varies considerably among treaties. Promotion activities agreed upon in the IIA cover such diverse issues as measures to improve the overall policy framework for foreign investment or the granting of financial or fiscal incentives to individual investors (what). Promotion measures may cover all economic sectors or focus on specific economic activities. They may be limited to confirming the applicability of already existing promotion schemes of the contracting parties or providing for the setting up of new investment promotion instruments (how). They may address promotion activities of the home country or of the host country, and may likewise provide for joint activities (where). Investment promotion provisions may be stand-alone provisions or establish a follow-up mechanism to monitor their operation in practice (when). Finally, investment promotion provisions may be drafted as voluntary commitments or as legally binding obligations (UNCTAD, 2002).

What option contracting parties finally choose depends on various factors. Countries that basically pursue a *laisser faire* policy with regard to foreign investment might favour promotion strategies aimed at improving the general policy and institutional framework, while governments applying strategic investment policies might have a preference for sector-specific or activity-specific promotion measures, or those aimed at fostering linkages between foreign investors and domestic companies. Financial considerations may also play a role, since many developing countries may not have the means to agree upon expensive promotion programmes, such as investment incentives, in IIAs. Recent developments in the evolution of the IIA universe might be an indication that more countries are ready to explore new approaches in investment rulemaking (UNCTAD, 2002).

Results from data collected on national Investment Promotion Agencies (IPAs) in 109 countries to examine the effects of investment promotion on FDI inflows are significant. First, it tests whether sectors explicitly targeted by investment promotion agencies receive more FDI in the post-targeting period relative to the pre-targeting period and non-targeted sectors. Second, it examines whether the existence of an investment promotion agency is correlated with higher FDI inflows. Third, it evaluated whether agency characteristics, such as the agency's legal status and reporting structure, affect the effectiveness of investment promotion. Results on the first two counts concur that investment promotion efforts appear to increase FDI inflows to developing countries. There is also evidence of diversion of FDI due to investment incentives offered by other countries in the same geographic region (Harding, Torfinn; Javorcik, Beata Smarzynska, 2007).

China has moved away from regional priority toward nation-wide implementation of open policies for FDI. The Chinese government then adopted and implemented a series of new policies and regulations to encourage FDI inflows. It introduced various investment promotion policies which it expanded thereafter. The Special Economic Zones (SEZ) of Shenzhen, Shantou, Zhuhai, Xiamen and Hainan, 14 coastal cities, dozens of development zones and designated inland cities all promote investment with unique packages of tax incentives. A number of free ports and bonded zones were established. Sometimes, foreign investors obtain incentives and benefits after direct negotiation with the relevant government authorities since some of these may not be conferred automatically.

The incentives available include significant reductions in national and local income taxes, land fees, import and export duties, and priority treatment in obtaining basic infrastructure services. Special preference schemes for projects involving high-tech and export-oriented investments were put in place. Priority sectors include transportation, communications, energy, metallurgy, construction materials, machinery, chemicals, pharmaceuticals, medical equipment, environmental protection and electronics. Tax incentives were among the most outstanding investment promotion policies. From 1980 to 1993 China used extensively a wide range of tax incentives, including income tax exemption and reduction, as well as tariff-free treatments for imported equipment and construction materials. Although in 1994 the unified taxation system applying to both domestic and FDI firms was introduced, a five-year tax refund scheme was granted for FDI firms, and tariff-free treatment was extended.

In addition, preferential treatments were granted in some specific sectors and industries. Currently, the targeted economic sectors and industries in which FDI is encouraged include agriculture, resource exploitation, infrastructure, export-oriented and high-technology industries. To encourage reinvestment of profits, China has been offering FDI a refund of 40 per cent of taxes paid on its share of income, if the profit is reinvested in China for at least five years. Where profits are reinvested in high-technology or export-oriented enterprises, the foreign investor may receive a full refund. Many foreign companies investing in China have adopted a strategic plan, which requires reinvestment of profits for growth and expansion. While the Chinese government continues with the value added tax (VAT) rebate system in an effort to maintain the profit margins of exporters in the midst of the Asian economic slump, State Taxation Administration plans to eventually phase out the rebates to modernize the current two-tier tax system for domestic and foreign enterprises (OECD, 2000).

## DISCUSSIONS

### Investment Opportunities

There are various opportunities for investment in Uganda. These opportunities exist in agribusiness, fisheries, forestry, manufacturing, mining, infrastructure, financial services, tourism, printing and publishing, education, information and communication technology (ICT) and the newly found oil. However, some sectors have been classified as priority sectors, and they include Agriculture, ICT, Energy, Health, Education, Mining and Services such as tourism and finance.

### Purpose of Investment Promotion

The Investment Code Act, 1991, was enacted, and the Uganda Investment Authority (UIA) established with the main purpose of promoting, facilitating and supervising investments in Uganda. The main purpose of investment promotion in Uganda is to reduce the costs of FDI by providing information on opportunities in the country and by helping foreign investors cut through bureaucratic procedures.

### Promotion Strategies

The investment opportunities in Uganda are being promoted using several methods such as trade fairs, missions and investment conferences elaborated next.

### Trade Fairs

The Uganda Manufacturers Association (UMA) annually organizes the Uganda International Trade Fair. This is a multi-sectoral trade event that plays a leading role in facilitating trade and business exchange among participating countries. The number of exhibitors has increased from 220 in 1993 to 385 in 1997. Twenty-two countries were represented at the 1997 event (RSA, 1998).

### Missions

Uganda sends and receives foreign trade missions in order to facilitate investment and trade with other countries. For instance, during the mission led by Minister Hanekom of South Africa in July 1998, a declaration of intent between the South African National Department of Agriculture and the Ugandan Ministry of Agriculture, Animal Industry and Fisheries (MAAIF) was signed. This aims to facilitate co-operation in the fields of agriculture and the food processing through, for example, joint scientific, technical and production ventures and projects (RSA, 1998).

### Investment Conferences

The country also participates in a number of investment conferences around the world. There is the increased interest in Uganda by foreign investors due to its membership of the East African Community (EAC). “The East African Community (EAC) today is attracting a lot of interest from many corners because of its integration agenda,” Mr Kategaya of EAC said at the 3rd East African Investment Conference, which attracted over 2,000 delegates to Kampala. He observed that FDI to the EAC have increased from $693 million in 2002 to $1.7 billion in 2008. And the volume of intra EAC trade has increased from $504 million to $947 million in Uganda; from $241 million to $465million in Tanzania; and from $741 million to about $1.4 billion in Kenya, from 2004 to 2010. FDI inflow within the EAC is expected to rise even higher as the region enters the Common Market on July 1, 2010. The common market between Uganda, Kenya, Tanzania, Rwanda and Burundi will facilitate the free movement of labour, goods, services and capital originating from within the region. The region currently boasts of an estimated 130 million people with a GDP of $75.2 billion according to Dr Diodorus Kamala, the chairperson of the EAC council of Ministers (Walter Wafula & Dorothy Nakaweesi, 2010).

## FINDINGS

### Effects of Promotion on Investments

The FDI into Uganda had stuck below the US$1 billion dollar per year mark as shown in Table 1 below.

**Table 1: FDI Inflows into Uganda 1990-2010**

| Period | 1990-2000 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 |
|---|---|---|---|---|---|---|---|
| FDI m USA $ | 82 | 380 | 644 | 792 | 729 | 816 | 848 |

**Source:** UNCTAD, WIR 2011

However, the number of firms investing in Uganda has followed a cyclical pattern as seen in Table 2 and Figure 1 below.

**Table 2: Number of Licensed Investment in Uganda 1991-2010**

| Year | FDI | Year | FDI | Year | FDI | Year | FDI |
|---|---|---|---|---|---|---|---|
| 1991 | 7 | 1996 | 225 | 2001 | 107 | 2006 | 434 |
| 1992 | 109 | 1997 | 186 | 2002 | 148 | 2007 | 369 |
| 1993 | 185 | 1998 | 101 | 2003 | 161 | 2008 | 381 |
| 1994 | 234 | 1999 | 67 | 2004 | 184 | 2009 | 314 |
| 1995 | 273 | 2000 | 89 | 2005 | 293 | 2010 | 323 |

**Source:** UIA, 2011

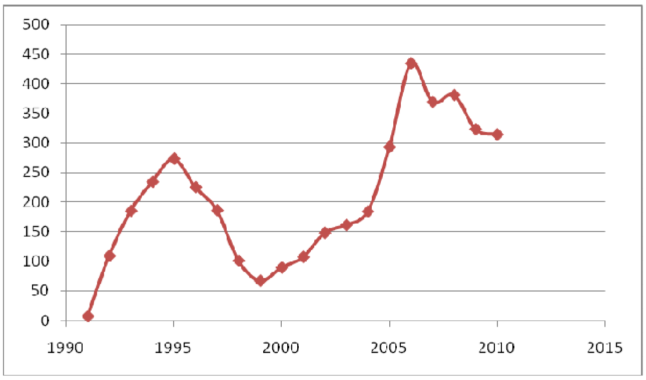

**Figure 1: Number of Projects Licensed by UIA in Uganda 1991-2010**

The rise in number of licensed firms between 1991 and 1995 as well as the fall after 1996 to 1999 has been explained by Obwona and Egesa (2006) who analyze the various types of FDI and the relative magnitudes of the components and determinants of FDI into Uganda in 1990s. They examine the destination of FDI among the sectors of the economy and show that a host of factors such as economic, political and others explain the attraction of FDI to Uganda. Privatization and the return of previously confiscated properties of expelled Asians have led to considerable FDI, which cuts across various sectors.

In addition, a string of policies has been implemented in recent times to achieve macroeconomic stability. These together with the peace in a large part of the country have brought large inflows of FDI. No one factor has single handedly affected the flows of FDI into Uganda, but various factors have had effects at different times. They identify important factors in attracting FDI to include a predictable and consistent policy and macroeconomic environment; successful implementation of privatization; efforts at regional integration, which is important in attracting market-seeking investments; aggressive investment promotion; reforms undertaken among incentive schemes and related government agencies to fulfill the criteria for investment promotion; and administrative simplicity, which has contributed significantly to FDI attraction.

They however, argue that the various positive steps taken to attract FDI notwithstanding, there still remain liabilities especially in the areas of infrastructure, level of corruption and improvement of institutional support. Consequently, there is need to continue to enhance the business environment and improve the risk coverage schemes on both bilateral and multilateral basis. The vices mentioned must have been at play in the reduction of FDI between 1995 and 2000.

The recovery in number of investments, however, since 2000 was mainly as a result of oil discovery in the Albertine region of Uganda. UIA then executive director Maggie Kigozi observed that the increase was due to investment in the energy, gas, telecommunications and manufacturing sectors. She added that the major sources of investment were expected to be India, China, Japan, Kenya and Sudan (The New Vision Newspaper, Friday January 9, 2009).

The fall in number of projects since 2006 was due to the global crises that hurt Uganda in terms of remittances and lower values for exports. With lower investment figures, the government adjusted economic growth projections for 2008 to 5-6 percent, instead of the initial forecast of 8 percent. Western donors have praised Uganda's record on macroeconomic stability, with its average 6 percent annual economic growth in the past 20 years, relatively low inflation and stable currency (The New Vision Newspaper, Friday Jan 9, 2009).

**Table 3: Value of Projects Licensed by UIA 2005-9 (US$ m)**

| Sector/Year | 2005 | 2006 | 2007 | 2008 | 2009 | Total |
|---|---|---|---|---|---|---|
| Agriculture, Hunting, Forestry and Fisheries | 66.7 | 72.2 | 28.99 | 60.89 | 203.3 | 432.1 (5.5) |
| Community, Social and Personal Services | --- | --- | 41.06 | 34.1 | 66.4 | 141.6 (1.8) |
| Construction | 22.1 | 32.46 | 223.8 | 58.1 | 175.9 | 512.4 (6.5) |
| Electricity, Gas and Water | .303 | --- | 742.50 | 173.3 | 69.9 | 986 (12.6) |
| Financing, Insurance, Real Estate, Tourism & Business Services | 75.5 | 351.6 | 109.9 | 380.9 | 309.84 | 1227.7 *(15.7)* |
| Manufacturing | 158.8 | 291.2 | 325.4 | 641.2 | 577.4 | 1994 *(25.5)* |
| Mining & Quarrying | 20.4 | 10.48 | 88.25 | 30.36 | 53.8 | 203.4 (2.6) |
| Transport, Communication and Storage | 81.97 | 468.6 | 444.8 | 946.1 | 84.35 | 2025.8*(25.8)* |
| Wholesale & Retail Trade, Catering & Accommodation Services | --- | --- | 218.3 | 55.9 | 31.04 | 305.2 (3.8) |
| **Total** | **425.8** | **1,226.6** | **2,223** | **2,380.9** | **1,571.8** | 7828.2 |

**Notes:** () = percent
**Source**: UIA, 2010

A review of the recent statistics of projects licensed by UIA reveal the emerging dominance of Ugandan investors, new FDI sources and the preferred sectors for investment.

Ugandans topped the list of planned investments, with new jobs and projects licensed in the quarter that ended in month of September 2008, according to the UIA. The UIA report indicates that planned investment by Ugandans was worth $98.8 million (Shs167.9 billion), with 17 projects and 959 jobs to be created. This happened in spite of a slight drop in the total planned investment of $297 million (Shs504.6 billion), down from $369 million (Shs627.3 billion) recorded in the previous quarter.

Releasing the report at the Media Centre on October 8, 2008, the Chairman of Board of UIA, Mr. Patrick Bitature, said; "For a country to attract more FDI, citizens need to feel confident and invest in their own country. This is a plus seeing more Ugandans investing and this will attract more FDI." Singapore which is the newest country on the list came second with planned investment worth $59.3 million (Shs100.8 billion) from two projects, one of which is a $40 million

(Shs68 billion) energy project. India and Pakistan followed in the third and fourth positions, pushing Kenya and South Africa, the once lead investors in Uganda, to 12th and 14th position respectively.

A total of 17 countries were licensed. Other countries were China, Canada, Eritea, Bangaladesh, Bermunda and UK among others. A total of 76 projects were licensed, down from the 101 recorded in the previous quarter that ended in June. In all these projects over 6,700 jobs are expected. In terms of investment value, construction took the lead amongst the sectors at $87 million (Shs147.9 billion), but in terms of number of licensed projects, manufacturing had majority projects totaling 26 out of the total of 76 recorded in that quarter (The Monitor Newspaper, Friday, October 10 2008). The dominance of Ugandans among investments is the major cause of difference between FDI inflow in table 3 and value of licensed projects in Table 3.

Uganda's manufacturing sector, which had for years lagged behind, is finally catching up following the increasing number of projects licenced in the country annually. The 2009 annual investment report released by UIA shows that the manufacturing sector licensed the highest number of projects totaling 136, with total planned investments of $577.4 million (about Shs101 billion) and projected employment of 20,920 jobs. Finance, insurance, real estate and business services emerged second with 72 projects, worth $309.8 million (about Shs588.4 billion) of planned investment and expected to create 10,890 jobs. Agriculture, which is Uganda's backbone, emerged third with 45 projects, a total planned investments of $203.3 million (about Shs386 billion) and projected employment of 27,591 jobs. In 2009, Uganda Investment Authority licenced a total of 3,314 projects in various sectors, with planned investment of $1.6 billion expected to create 70,289 jobs for the population. Local investments were the highest with projects totaling to 171 worth $655.2 million (about Shs112 billion) of planned investment and 35,961 of planned employment. Local investments were followed by United Kingdom, China, India, Russia and Kenya in that order. Addressing a news conference at the release of the report at the Media Centre, the then Minister of State for Investments, Mr Aston Kajara, said that was the first time that the 70,000 planned jobs mark had been achieved since the creation of UIA in 1991.

He attributed the increasing investments in the country to improvements in infrastructure including liberalisation of the telecommunications sector, rehabilitation of the airport and air fields and increased passenger and cargo routings. He also observed that government's intervention in the energy crisis and efforts at improved water and rail transport also contributed to the country's attractiveness as an investment location.“Uganda is now one of the fastest growing economies and one of the most liberal countries for Foreign Direct Investment (FDI)” he remarked. The government reduced electricity tariffs in the country by subsidizing electricity for large industries to the tune of Shs8 billion to bring down the cost of a unit from Shs187.2 to Shs184.8 as a way of increasing Uganda's competitiveness in the region.

Though more jobs have been created, Uganda continues to suffer from a high rate of unemployment. “Much as we try to create more jobs, they are not yet enough because of the increasing number of people seeking employment but we are yet to reach there,” Mr Kajara said. Though the quarter registered more projects, their value was less by $436 million from $1 billion in 2008 to $564 in 2009. The manufacturing sector licensed 30 projects in the quarter accounting for 44 per cent of the total planned investments; agriculture and construction accounted for 14 per cent each, with 15 and 4 projects respectively. Agriculture, however, accounted for the highest number of planned jobs at approximately 16,000 jobs. China and India were top sources of Uganda's FDI in the quarter, which Dr Kigozi, the then ED of UIA, attributed to their investment in value addition (The Monitor Newspaper Friday, January 8 2010).

In summarizing, it can be argued as follows: First, UIA has been promoting investments since 1991. A number of opportunities exist in the entire economy. Those that have been targeted as priority sectors, however, include agriculture, ICT, Energy, health, education, mining and services such as tourism and finance. In terms of countries, UIA has targeted UK, USA, Kenya (EAC), South Africa, India, China, UAE and Singapore (Interview with a source at UIA, October 2011).

A number of strategies have been used, including trade fairs, missions and investment conferences. Based on the number of firms licensed, the promotion efforts were effective between 1991 and 1995, but since then other factors have determined FDI such as the discovery of oil in the Albertine region of Western Uganda and the credit crunch of the 2009.

**Effectiveness**

Uganda Investment Authority (UIA) has been promoting investments in Uganda since its establishment in 1991. A number of opportunities exist in the entire economy. Those that have been targeted as priority sectors, however, include agriculture, ICT, Energy, health, education, mining and services such as tourism and finance. In terms of countries, UIA has targeted UK, USA, Kenya (EAC), South Africa, India, China, UAE and Singapore as sources of foreign investment into Uganda (Interview with a source at UIA, October 2011).

“The key sectors being promoted are tourism, manufacturing, agriculture, service, ICT, mining and petroleum,” said Kigozi, the then Executive Director of UIA in support of the above position. She observed that over 300 concessions had been given out to mining companies. Nankabirwa, the then Minister of State for Microfinance, said recent partnerships and agreements in the oil and gas sector means the sector will soon boost the overall investment levels in the country (The New Vision Newspaper, Thursday, 8 July 2010).

The investment opportunities in Uganda are being promoted using several methods such as trade fairs, missions and investment conferences. The Uganda Manufacturers Association (UMA) annually organizes the Uganda International Trade Fair; a multi-sectoral trade event that plays a leading role in facilitating trade and business exchange among participating countries. The number of exhibitors has increased from 220 in 1993 to 385 in 1997. Uganda sends and receives foreign trade missions. Also, there have been investment conferences that the country organized or participated in. For instance, the 3rd East African Investment Conference attracted over 2,000 delegates to Kampala (Uganda) in 2010.

Established in 1991, Uganda Investment Authority (UIA) has the target of championing private sector-led development as opposed to state-led development that used to exist. In other words, Uganda Investment Authority (UIA) replaced Uganda Development Corporation (UDC) with hope of a more successful private sector-led growth. It has several objectives including but not limited to promoting Foreign Direct Investment (FDI); Saving or generating new foreign exchange through ISI or exports; Utilizing local materials, supplies, and services; Creating employment opportunities for Ugandans; Contributing to locally or regionally balanced socio-economic development; and Introducing advanced technology or upgrading indigenous technologies˙ These objectives, among others, were to be achieved through licensing of investors and registration of technology transfer.

From new investments worth $1.6b (about sh3,600b) in 2009, out of which about 83,659 jobs were expected, the Uganda Investment Authority (UIA) licensed 314 projects, which led to a 125% rise in jobs created. While the planned investments fell to $1.6b in 2009, from $2.4b the previous year, the expected number of jobs shot up to 83,659 from 37,216. The decline in investments was attributed to the effects of the financial crunch which hit Europe and North

America. Most of the jobs were in the electricity, gas, water, agriculture, finance, real estate and manufacturing sectors. Once again Ugandans were the biggest investors ($880m), taking 69% of the projects licensed (216), a development which Ruth Nankabirwa, the then Minister of State for Microfinance, said was significant.

"The Government has mandated UIA to focus considerable efforts and facilitation resources to the development and sustenance of domestic investment," said Nankabirwa while addressing journalists at the Uganda Media Centre (UMC). As a result of the schemes to build the entrepreneurial base of Uganda, Nankabirwa informed that the SME department had in three-and-a-half years since 2007 seen about 6,000 entrepreneurs undergo training. China, for the first time, is the second biggest foreign direct investor with $246m planned investment, followed by India, Russia and Kenya. "The highest number of projects licensed in 2009/2010 were in the manufacturing sector (136), with total planned investment of $577.4m. From these, we also expect the highest number of planned jobs (20,920)," said Nankabirwa. Manufacturing and Finance had the biggest chunks of planned investments at $577.4m and $309.8m respectively. UIA then boss Maggie Kigozi observed that the emergence of the East African common market had created a labour pool favourable for FDI inflow (The New Vision Newspaper, Thursday, 8 July 2010).

In summary, based on the number of firms licensed, the promotion efforts were effective between 1991 and 1995, but since then other factors have determined FDI inflow such as the discovery of oil in the Albertine region and the credit crunch of the 2009.

## Failures

Kibikyo (2008) points out the poor promotion in the agricultural and mining sub-sectors. Despite agriculture contributing 40% to GDP in 2003, the Investment Code Act, 1991, which governs investments in Uganda, discouraged FDI investing in the sector. Foreign investors were refused engagement in agricultural production except for provision of materials or other assistance to the local farmers; leasing a piece of land for manufacturing and for ensuring a regular supply of raw materials with permission from the Finance Minister upon the recommendation from the UIA through a statutory instrument.

In the mining sector, despite a huge mineral potential, UIA neither provided investors with important investments information like geological data and mineral targets that could be used as a basis for attracting serious investors, nor extension services, training and mining equipment. Impact was that although 206 companies were licensed to carry out prospecting, acquire mining leases and mineral dealers' licenses, there was little on the ground and the sector recorded zero cumulative investment up to 1998/9 (The Monitor Newspaper, 20 May 2004).

The Government continues to under-fund the tourism sector. For instance, it will not increase funding to the sector in 2011 in spite of the dire need for it. According to the national budget framework paper for 2010/11, the total allocation for Uganda Tourism Board (UTB) is projected to remain constant at Sh2.05b. However, the figure is still subject to parliamentary approval. But sector experts believe a thorough lobbying process through Parliament and the higher executive could cause the desired change. In the 2009/2010 budget, UTB, the lead promotion agency received Sh2b only. Edwin Muzahura, the UTB marketing and public relations manager, said the agency may seek other funding options in the event that the Government does not change its position. "We will keep lobbying the Government. We still think the Government can rescind its position," said Muzahura. Cuthbert Baguma, the new UTB boss, disclosed that his agency needs Sh22b to effectively sell the country's rich attractions for better foreign earnings. Top executives of UTB appeared before the Parliament to present their case for additional budget boosts. But the visit was considered late because the budget figures were already worked out. Tourism is number three on the list of the national primary growth areas of the newly released National Development Plan (NDP) of Uganda, coming only after agriculture and forestry; yet it is not receiving the desired funding from the government. Following the enactment of the Tourism Act in 2008, UTB is empowered to run the sector, a development that also means some financial liberty.

The Board has, therefore, been looking out for its own autonomous sources of funding, including charging the tourism levy. “By implementing the tourism levy, we think we could generate some resources,” said Muzahura. The UTB is empowered to collect 2% of the total expenditure bill generated by hotels, under the Tourism Act which came into force in May 2009 after President Yoweri Museveni assented to it in 2008. The Act gives the tourism coordination role to UTB. Before then, the sector has not had effective legislation and had relied on the Hotels Act of 1964 and the Tourism Agency Act 1968. “There was need to review this in view of the emerging role of the private sector,” said Muzahura. The tourism levy has been key in sustaining the tourism sector in Kenya and Tanzania. Muzahura also said the Agency is looking at another 2% levy on airport taxis as another source of income. Key on the agenda of UTB in 2011 is to promote local and regional tourism that protects the sector from the uncertainties arising from external interruptions like the recent ash clouds that paralyzed travel in mainland Europe.

The other is to focus the marketing on key prime markets, explore sustainable financing options as well as quality standards in the services industry like hotel grading. In 2008, tourism contributed 9.2% or $1.2b to the gross domestic product while in Kenya, it brought in $3.5b or 10.8% to GDP according to the World Tourism and Travel Council (WTTC). This variation may be directly linked to the massive investment that Kenya puts into the sector. According to the draft corporate strategy plan 2009-2012, Kenya spends sh27 billion (ksh1 billion) in marketing alone. Tourism arrivals increased from 512 thousand in 2004 to 844 thousands in 2008- an increase of 65% in under five years, boosted by the commonwealth heads of government meeting (CHOGM) held in Uganda. Kenya on the other hand had 1.8 million tourist visitors in 2008. These comparisons provide strong insights into the value promotional cash provides in pushing not only arrival figures but also high end tourists that generate valuable revenue. Kenya and Egypt are easily some of the biggest spenders on tourism promotion to the tune of sh189b combined (The New Vision, Tuesday, 1 June 2010).

## Other Assistance

Some international agencies have started assisting developing countries in emplacing measures that would attract foreign direct investments into their economies. Some of these international agencies include UNIDO, FIAS, MIGA, etc.

UNIDO is implementing a Regional Investment Promotion Programme for Africa that involves developing a number of tools to support the work of African Investment Promotion Agencies (IPAs). Through this program, the IPAs and other intermediary organisations are exploring ways to go beyond their traditional function of promoting their countries and attracting Foreign Direct Investment (FDI) in general, to taking on a more proactive role as agents of development which will attract quality investments in productive sectors and mobilise supportive business services. On the issue, Uganda was selected to be used as a pilot country for the capacity building programme in recognition of UIA’s active partnership with UNIDO in executing the investor survey in Uganda, and UIA having been the first, among the programme countries, to finish the survey.

They also carried out a diagnostic study of UIA in preparation for the capacity-building component. The diagnostic studies would be carried out in all the twenty Programme countries. The Regional Investment Promotion Programme for Africa, which is implemented within the context of the African Investment Promotion Agencies Network (AfrIPANet), involves developing a number of tools to support the work of African Investment Promotion Agencies (IPAs). It is composed of several components such as the African investor survey covering 20 African countries; the Investor Monitoring Platform (IMP) developed to facilitate the analysis and reporting of survey result; and the capacity building component which involves training of the IPA and other intermediary organizations staff in utilizing the IMP results for policy formulation, investor targeting, strategy design, linking domestic and foreign investors and measuring the effectiveness of IPA activities (UIA, 2011). Through this programme, the IPAs and other intermediary organizations are exploring ways to adopt a more proactive role as agents of development. These organizations will attract quality investments in productive sectors and mobilize supportive business services.

The challenges of the traditional methods of marketing a country as an investment location are generally the same in the African countries. They rarely result in significant increases in attracted investments. The contribution of attracted investments to improving the macro-economic situations in the recipient countries may be insignificant. This is because traditional investment promotion methods lack strategies to strongly impact economic development. Through the Africa Investor Surveys and the IMP, information is made available and used to design and implement effective investment promotion strategies based on empirical evidence.

The African investor survey component was implemented in Uganda and other Programme countries during 2010. It was planned to disseminate the results to all IPAs and stakeholders in October 2011. The survey initially covered 20 countries and UNIDO is planning to cover 53 countries in the follow up phase. UNIDO is now embarking on implementing the capacity-building component of the Programme. The objective of this component is to help the IPAs in utilizing the survey data and the results for policy formulation, strategy design, investor targeting, design and delivery of services focused on targeted investor groups, linking domestic and foreign investors and measuring the effectiveness of IPA activities and staff. The preparatory activities for the capacity-building component of the Programme would start with the diagnostic studies of the IPAs in each of the Programme countries. This would also involve an investigation of the investment policy frameworks in the countries. Accordingly, knowledge of the country in terms of the relevant policies affecting investment and the institutional frameworks is crucial. This would promote understanding and support the UNIDO capacity building initiative (UIA, 2011).

FIAS provides assistance in improving the products offered by countries by providing business enabling environment and investment policy advice and assistance in designing institutional frameworks for investment promotion. The technical assistance arm of the Multilateral Investment Guarantee Agency (MIGA) assists IPAs in developing and implementing investment promotion strategies (FIAS, 2006).

## CONCLUSIONS

The study investigated the effect of investment promotion on investments in Uganda. Since enactment of the Investment Code Act, 1991, there had been no recent serious academic inquiry into the effectiveness of the promotional tools that were put in place as a result of the Act. Secondary data and some interviews were used in the research. Analysis was qualitative.

UIA has been promoting investments since its establishment in 1991. A number of opportunities exist in the entire economy. Those that have been targeted as priority sectors, however, include agriculture, ICT, Energy, health, education, mining and services such as tourism and finance. In terms of countries, UIA has targeted UK, USA, Kenya (EAC), South Africa, India, China, UAE and Singapore as sources of investment into Uganda (Interview with a source at UIA, October 2011).

In investment promotion efforts, however, Uganda had problems of availing investments information like geological data and mineral targets for the mining sector, and failed to financially support the targeted areas through the budget such as was the case with tourism. In the mining sector, despite a huge mineral potential, UIA neither provided investors with important investment information like geological data and mineral targets that could be used as a basis for attracting serious investors nor extension services, training and mining equipment. Mining was not the only sector that was neglected, but other targeted sectors, including tourism. While Tourism is number three on the list of the national primary growth areas of the newly released National Development Plan of Uganda, coming only after agriculture and forestry, it got miserable amounts from the budgets.

Based on the number of firms licensed, the promotion efforts were effective between 1991 and 1995, but thereafter, other factors have determined FDI inflow into Uganda, such as the discovery of oil in the Albertine region and the credit crunch of the 2009. The effect of promotion on investment, therefore, seems to have been felt most between 1991 and 1995; and since then, other factors have been responsible.

## RECOMMENDATIONS

### Allowing Foreign Investors to Invest in Agriculture

Agricultural production in Uganda is mainly done by 2.2 million smallholders, mostly working 2 to 3 hectares of land, using traditional methods of cultivation and family labor. There is no way such method of production can support the country’s rapidly growing population, let alone the desire to earn foreign exchange for the country through the exportation of the produce.

It is, thus, surprising that the Investment Code Act, 1991, excludes foreign investors from a sector as critical to the Ugandan economy as agriculture which contributes about 40 percent of the country’s GDP; except for provision of materials or other assistance to the local farmers; leasing a piece of land for manufacturing and for ensuring a regular supply of raw materials with permission from the Finance Minister upon the recommendation from the UIA through a statutory instrument.

There is therefore the need to modernize agricultural production in Uganda through the importation of new technology and capital; which are likely to come through inward FDI. The government should, therefore, amend the Act to allow foreign investors engage in the business of agriculture in Uganda.

### Provision of Important Investments Information and other Services to Investors

The government should endeavor to provide investors with important investment information, like geological data and mineral targets, that could be used as a basis for attracting serious investors into the mining sector. It should also complement this with the provision of extension services, training and equipment in the sectors targeted for investment.

### Provision of Adequate Budgetary Support for the Targeted Sectors

The government should financially support the sectors targeted for investment through adequate provisions in the budgets. The situation where such critical sectors receive paltry amounts from the budgets would not lead to their growth; and would therefore not be effectively promoted to foreign investors or international patrons. This, for example, is the case with tourism which happens to be number three (after agriculture and forestry) in the list of national primary growth areas in the current National Development Plan of Uganda, and yet receives paltry budgetary allocations. The situation is the same for fisheries and mining.

### Improvement of Infrastructure, Especially Power and Transport Networks

The government should vastly improve on infrastructure as a way of making Uganda attractive to foreign investment. It should improve on power generation and transmission as that is key to industrialization. Also, the government should improve on the road network in order to facilitate trade, not only within Uganda, but especially between the country and its neighbors, especially the EAC members. It should also lobby other EAC governments to do the same, as poor infrastructure constrains the inflow of foreign investment (FDI) into the region.

### Reduction of Level of Corruption

Corruption is another hindrance to the inflow of foreign investment into most Sub-Saharan African economies, including Uganda. Increasing emphasis is being placed on transparency and ethics in business transactions in the developed world. Not only would corrupt practices undermine the viability of the businesses in the host countries, it would also lay foreign executives open to prosecution in their home countries. Cuervo-Cazurra (2006) discovers that corruption not only causes a reduction in FDI, but also a change in the composition of country of origin of FDI. First, corruption may result in relatively lower FDI from countries that have signed the OECD Convention on Combating Bribery of Foreign Public Officials in International Business Transactions.

This suggests that laws against bribery abroad may act as a deterrent against engaging in corruption in foreign countries. Second, and on the other hand, corruption may result in relatively higher FDI from countries with high levels of corruption. This suggests that investors who have been exposed to bribery at home may not be deterred by corruption abroad, but instead seek countries where corruption is prevalent. The former holds more for investors from the developed world, who incidentally are the major sources of FDI into Sub-Saharan Africa. The effect is that these foreign investors are increasingly unwilling to venture into countries where corruption in business is rife.

There are tell-tales of corruption, almost on daily basis, in Uganda. This has not been equally matched with stories of government’s successful efforts to combat the scourge. This will definitely be sending wrong signals to intending foreign investors who are considering Uganda as their possible investment destination. The government should, therefore, up the ante in the fight against corruption in Uganda.

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