FOREIGN DIRECT INVESTMENT (FDI) AND INVESTMENT OPPORTUNITIES IN UGANDA

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ABSTRACT

This study investigated the existence of investment opportunities in Uganda that could be exploited through Foreign Direct Investment (FDI) to the mutual benefits of the foreign investors and the host economy. It used mostly secondary data and interviews on investments in Uganda. Analysis was qualitative. The findings showed that there exists enormous investment opportunities in Uganda in the areas of agribusiness, fisheries, forestry, manufacturing, mining, infrastructure, financial services, tourism, printing and publishing, education, information and communication technology (ICT) and the newly found oil. While some of these sectors have been classified as priority sectors, including agriculture, information and communication technology, energy, health, education, mining and services, such as tourism and finance; foreign investors were restricted from participation in some.

The Investment Code Act, 1991, specifically excluded foreign investors from participation in agribusinesses which are so critical to Uganda, and which contribute about 40% to the country’s GDP. Opportunities notwithstanding, various motives were discovered to influence the investment decisions of Trans National Corporations (TNCs), and these include market, efficiency, resource, asset-creation and assigned state policies. However, in the case of Uganda, the chief determinants of inward FDI were discovered to be the economic considerations of the expanding market size, abundant natural resources, and the stable and deregulated economic policies of the government. Indeed, western donors had praised Uganda’s record on macroeconomic stability; with its average annual economic growth rate of 6 percent in the past 20 years, relatively low inflation and stable currency. It was also found out that the main gateway for FDI inflow into Uganda was the “greenfield”, rather than through the route of Mergers and Acquisition (M&A).

To ensure the optimal exploitation of the enormous investment opportunities in Uganda, to the mutual benefits of the foreign investors and the host economy, it was recommended that the government should tackle the issue of corruption in the country; amend the Act to allow foreigners to engage in agricultural businesses; and strengthen the Uganda Investment Authority (UIA) to effectively perform its role of promoting, facilitating and supervising investment in Uganda.

KEYWORDS: Investment Opportunities, Trans-National Corporations, Foreign Direct Investment, Mergers and Acquisition, Greenfield Investment

INTRODUCTION

Background of the Study

Foreign Direct Investment (FDI) has become a key agent of development in most economies. 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 (Torfinn Harding and Beata Javorcik, 2007). There are thus various motives that influence the investment decisions of Trans
National Corporations (TNCs) who are the purveyor of FDI. Of these, the four main ones are market, efficiency, resource (all of which are asset exploiting strategies) and created-asset-seeking (an asset-augmenting strategy).

Surveys undertaken by United Nations Conference on Trade and Development (UNCTAD) and partner organizations on outward investing firms from developing countries confirm that, of these motives, the most important one for developing country TNCs is market-seeking FDI, which primarily results in intraregional and intra-developing country FDI. Within this, there are differences in patterns of FDI, depending on the activity of the TNC. For example, FDI in consumer goods and services tends to be regional and South-South orientated; that in electronic components is usually regionally focused because of the location of companies to which they supply their output. In Information Technology (IT) services it is often regional and orientated towards developed countries where key customers are located; and FDI by oil and gas TNCs targets regional markets as well as some developed countries which remain the largest markets for energy (UN, 2006:xxvii). Efficiency-seeking FDI is the second most important motive, and is conducted primarily by TNCs from the relatively more advanced developing countries hence higher labor costs. It tends to be concentrated in a few industries such as electrical and electronics and garments and textiles. Most FDI based on this motive target developing countries; that in the electrical/electronics industry is strongly regionally focused, while FDI in the garments industry is geographically more widely dispersed. Not unexpectedly, most resource seeking FDI are in developing countries and much created-asset-seeking FDI are in developed countries.

Apart from the above-stated motives, another common motive for TNCs from some countries is that of strategic objectives assigned to State-owned TNCs by their home governments. Some governments have encouraged TNCs to secure vital inputs, such as raw materials for the home economy. For example, both Chinese and Indian TNCs are investing in resource-rich countries, especially in oil and gas to expand supplies, in contrast to targeting customers as does market-seeking FDI in this industry. In the case of Chinese TNCs, the quest to secure supplies of a wide range of raw materials is complemented by parallel and sustained Chinese diplomatic efforts in Africa, Central Asia, Latin America and the Caribbean, and West Asia. In terms of location of FDI, the net result of the relevant drivers, advantages and motives is that most investments are in other developing countries because of similarities in consumer markets, technological prowess or institutions or within their region thus neighboring countries with which they are familiar (UN, 2006:xxvii).

The greatest asset of Uganda, and the East African Community (EAC) region as whole, is the abundant natural resources in the region. East Africa presents the best competitive advantage in fisheries, tourism, hydro-power and agriculture. Yet, as President Jakaya Kikwete of Tanzania said, the EAC region has only 0.9% of Foreign Direct Investments (FDI) in developing countries. “These numbers paint a gloomy picture of EAC region but East Africa is not hopeless. EAC is well endowed with natural resources and people who are capable of doing more and better,” he said. Kikwete was optimistic that the EAC Common Market Protocol that was to come into force in July 2010 would advance the EAC cooperation, integration agenda, and development (The New Vision Newspaper, Monday, 10th May, 2010).

With a combined population of over 130 million people and a total Gross Domestic Product (GDP) of about $70b, the EAC is in a good position to attract investors. Investors can expect to benefit from a regional market that has an emerging middle class and a single tariff structure across the five member states of Burundi, Kenya, Rwanda, Tanzania and Uganda. Countries like China, India, Japan, the US and EU bloc have been trying to position themselves in the East African market that promises favorable returns.

In Uganda, enormous investment opportunities exist in agribusiness, fisheries, forestry, manufacturing, mining, infrastructure, financial services, tourism, printing and publishing, education, information and communication technology
FOREIGN DIRECT INVESTMENT (FDI)

Definition of Foreign Direct Investment

The concept of Foreign Direct Investment (FDI) has continued to acquire increasing importance as economies strive to develop well beyond the capabilities provided by resources that are available locally. It has evolved from mere investment in fixed assets of a business to the acquisition of a management interest in a company by a foreign firm. Initially, FDI was defined as a company from one country making a physical investment in building a factory in another country. The direct investment in buildings, machinery and equipment is in contrast with making a portfolio investment like buying shares in a company, which is considered an indirect investment. In recent years, given rapid growth and change in global investment patterns, the definition has been broadened to include the acquisition of a lasting management interest in a company or enterprise outside the investing firm’s home country.

As such, it may take many forms, such as a direct acquisition of a foreign firm, facility or construction. It may also take the form of investment in a joint venture or strategic alliance with a local firm with attendant input of technology or licensing of intellectual property. In the past decade, FDI has come to play a major role in the internationalization of business. Reacting to advancements in technology, growing liberalization of the national regulatory framework governing investment in enterprises and changes in capital markets, profound alterations have occurred in the size, scope and methods of FDI. New IT systems and the decline in global communication costs have made FDI management easier than before. The changes in trade and investment policies and the regulatory environment globally in the past decade, including trade policy and tariff liberalization, easing of restrictions on FDI and acquisition in many nations, and the deregulation and privatization of many industries, have probably been the most significant catalysts for FDI’s expanded role (Graham and Spaulding, 2004).

FDI can either take the form of “green field” investment (also called "mortar and brick” investment) or merger and acquisition (M&A), depending on whether the investment involves mainly newly created assets or just a transfer from local to foreign firms. Most FDI investments have taken the form of acquisition of existing assets (M&A) rather than investment in new assets ("green field"). Thus, M&As have become a popular mode of investment for companies wanting to protect, consolidate and advance their positions by acquiring other companies that will enhance their competitiveness (Ntwala Mwilima, 2003).

Determinants of FDI

It is argued that a strong policy and regulatory regime, appropriate institutions, good infrastructure, and political and economic stability are important to attract FDI. UNCTAD has further indicated different determinants for decisions to invest abroad. Some of these determinants include: The policy framework for FDI such as political and social stability, rules about treating operations of affiliates of foreign companies, and international FDI agreements. Others are Economic determinants such as the size of the market and per capita income, natural resources, cheapness of factors of production or efficiency-cheaper costs for infrastructure or intermediate products. Other determinants such as business affiliation provisions (like investment incentives which are mostly mistaken as important determinants, and yet are not, except in case of choice between two equally attractive locations) and Privatization programmes have become sources for attracting FDI (Odenthal, 2001).

In studies of 81 UK, Swiss and German firms to investigate determinants of FDI inflows to the SADC region, the
findings reveal that 84% are lured by local market Size, 40% by local raw materials, 26% by personal reasons, 21% by strategic reasons and 19% by Privatization Investment facilitation (Econews, 15 April 2003).

FDI is viewed as a major stimulus to economic growth in developing countries. Its perceived ability to deal with major obstacles such as shortages of financial resources, technology, and skills has made it the center of attention for policy makers in developing countries such as Africa.

**Gateways for Foreign Direct Investment (FDI)**

FDI can take the form of either “greenfield” investment (also called "mortar and brick" investment) or merger and acquisition (M&A), depending on whether the investment involves mainly newly created assets or just a transfer from local to foreign firms. Most investments have taken the form of acquisition of existing assets rather than investment in new assets ("greenfield"). M&As have become a popular mode of investment for companies wanting to protect, consolidate and advance their positions by acquiring other companies that will enhance their competitiveness. Mergers and acquisitions are defined as the acquisition of more than 10% equity share, involving transfer of ownership from domestic to foreign hands. M&As do not create new productive facilities. Based on this definition, M&As raise particular concerns for developing countries, such as the extent to which they bring new resources to the economy, the denationalization of domestic firms, employment reduction, loss of technological assets, and increased market concentration with implications for the restriction of competition (Ntwala Mwilima, 2003).

UNCTAD studies for the World Investment Report 2000 revealed that, for the host country, the benefits of M & As are lower and the risks of negative effects are greater when compared to Greenfield investments, especially at the time of entry over the short term. An UNCTAD research on M&As concluded on five issues. First, that FDI through M&As correspond to a smaller productive investment than Greenfield as the financial resources do not necessarily go into increasing the capital stock. Secondly, M&As are less likely to transfer new or better technologies than Greenfield investment FDI. Third, FDI through M&As do not generate employment at the time of entry into the host economy, and may lead to lay-offs as the acquired firm is restructured. Fourthly, FDI through M&As can reduce competition, and may be used deliberately to reduce or eliminate competition; and lastly, over the longer term, cross-border M&As are often followed by sequential investment that do increase the capital stock. Ideally the purpose of investment is to benefit both the investing company and the host economy. However M&As are likely to result in profit for the investing firm but destruction of the domestic industry. Evidence shows that in some cases, foreign investors enter a market solely with the purpose of closing down domestic competitors and establishing a monopoly in the economy. The most noteworthy policy mechanism against such practices and which also serves to protect the domestic economy is a competition policy (Ntwala Mwilima, 2003).

**INVESTMENT OPPORTUNITIES IN UGANDA**

In this section, the data on business opportunities in Uganda are presented, analyzed and interpreted. Generally, business opportunities in Uganda are articulated by Uganda Investment Authority (UIA) in several of its publications such as the investor brochure.

The general opportunities for the entire economy are presented in Table 1 and some specific opportunities for the financial sector in Table 2. 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. Some of these opportunities are elaborated next.
Agriculture

Agricultural production is mainly from 2.2 million smallholders, mostly working 2 to 3 hectares of land, using traditional methods of cultivation and family labour. Any foreign investor could, therefore, leverage on the valuable lessons from these smallholders in commercializing its own farming in Uganda. Food crops (plantains, cassava, sweet potatoes, millet, sorghum, maize, beans, groundnuts and sesame) represent 60% of agricultural GDP, livestock 19% and export crops (coffee, cotton, tea and tobacco) 12%. Some high value crops, such as cut flowers and certain vegetables and fruits, are also being exported. The government is developing a strategy to encourage exports of both food crops and high value crops, in order to diversify its export base (RSA, 1998). The markets exist in Europe and Japan for these agricultural produce from Uganda.

Japan is a significant source of investment inflow to the developing economies. Unfortunately, Japanese investments in Africa account for only 0.6 percent of its total investments abroad and these are already concentrated in a few African countries especially in the North and South Africa, thereby excluding Sub-Saharan Africa (SSA). Thus, there is need to increase Japanese investments in Africa, and Uganda in particular. In a recent discussion with a delegation of 50 Japanese investors headed by the country’s Parliamentary Vice Minister for Foreign Affairs, Mr. Nobuhide Minorikawa, the Uganda private sector was challenged to seize the opportunity now that Japan has opened its doors to trade. Japan has already granted Africa quota-free, duty-free market access to 175 agricultural products from Uganda and other developing countries. Despite these opportunities, Uganda's exports to Japan are still minimal due to supply side constraints and non-tariff barriers (NTBs) such as quality standards, production capacity, certification, information gaps among the exporters on Japanese regulations and inadequate knowledge of Japanese market (The Monitor Newspaper, Wednesday, September 17, 2008).

On the other hand, investments from such countries as Japan can be used in exploiting some of the identified opportunities in Uganda, especially in agribusinesses.

 Fisheries

Information from the Fisheries Department in Entebbe indicates little hope for Uganda in fisheries for 2009; the country exported about 16,000 metric tonnes of fish down from the 23,000 tonnes exported in 2008. Uganda continues to register declines in fish export revenue and volume. This is threatening the country’s once promising economic resource. The report also indicates a decline in export revenue. Only US$70 million was realized from the fish exported in 2009 indicating a plunge from the 2008 mark of about US$117 million. This means the country lost close to $47 million in revenue. The falling trend has been on for the last four years. Uganda exported 35,000 tonnes of fish there-by earning the country a total of US$145.8 million (Shs247.8 billion) in 2006. In 2007 the volume exported fell to 32,000 tonnes, earning the country a total of US$124.7 million (Shs211.9 billion) less revenue compared to 2006.

The loss has been attributed to increased mismanagement of the water resources and the effects of climate change. A source at the Fisheries Department, who preferred anonymity, remarked that “If serious action is not taken, then the resource is at stake, revenues will continue to dwindle and incomes lost.” Over 0.4 million and 1.5 million Ugandans who directly and indirectly depend on fish are being affected by the plunge. The government and the private sector are adopting different measures to save the industry which was once the country’s leading non-traditional export (NTE). Currently, the government earmarks about Shs200 million- Shs400 million each quarter for the development of fisheries; an amount range that is not enough if the new intervention measures were to be implemented within the stipulated time frame. Thus, according to the Department, the funds allocated are less than the actual annual budget of about Shs6 billion required to
keep the systems running and to realize the desired change (The Monitor Newspaper, Tuesday, January 26 2010).

Given the above, private investors with the required resources can step in to harness the fishery potentials that still abound in Uganda.

Banking

In the banking sub-sector, the rural areas are largely unbanked; hence creating a gap. Most of the banking activities are concentrated around Kampala, the country's capital and other large towns, leaving about 42% of Ugandans at the mercy of the informal financial sector, and another 30% totally excluded from the financial services sector. There is, therefore, the need to attract banking, particularly micro-finance to the rural areas.

The general opportunities in banking are indicated in Table 1 row 7 while more detailed opportunities in the financial sector are in Table 2. These opportunities yearn for investment, especially of the FDI type.

Oil

With the newly-discovered oil deposits in the Lake Albert region of western Uganda, the country presents opportunities that need to be exploited by foreign investors who have both the resources and the necessary technology in the oil industry. In this regard, Dr Maggie Kigozi, the then executive director of the UIA, had asked Libyans to invest in oil exploration and drilling in Uganda. She opined that Libya has the necessary experience and expertise to manage Uganda’s virgin petroleum sector. “Uganda was looking for more capacity to explore oil, build refinery for oil by-products”. In Uganda, Libya already boosts of investments by constructing the Uganda-Kenya oil pipeline.

According to UIA, Libya was among the top 10 countries that lead in Uganda’s FDI (The Monitor Newspaper, Thursday, May 27 2010). Libya has also made inroads into East Africa’s oil sector premised on an oil pipeline deal worth about Shs714 billion. The Libyan government through Tamoil, a state owned firm, won a deal to construct an oil pipeline linking Uganda to Kenya from Eldolet in the Kenyan Rift Valley Province. The project, however, stalled over the years due to compensation failures, diversion of funds, rising expenses and technical obstacles, which forced the cost to rise from a previous low of about Shs212 billion to a high of Shs714 billion (The Monitor Newspaper, Tuesday, March 22 2011); and finally to the cancellation of the project in September 2012, and an estimate of USD300 million for its fresh execution.

Mining

Uganda is blessed with abundant mineral deposits such as gold, tin, cobalt, iron-ore, gypsum, etc. These resources have remained virtually unexploited, largely due to the absence of relevant geo-scientific information and the capital intensive nature of their exploitation. These make mining very attractive for the foreign investors who have the requisite scientific knowledge and funding that are critical in the operations in that sector of the economy. In the quest to boost Foreign Direct Investment (FDI) into the country, President Museveni of Uganda urged investors at the Third East African Investment Conference in 2010 to exploit the EAC’s sizeable mineral resources in the region; while also mentioning other key sectors such as tourism and hospitality, transport, energy as well as the Information and Communication Technologies (ICT) (Walter Wafula & Dorothy Nakaweesi, 2010).

Tourism

Tourism presents great opportunities in Uganda. The country is blessed with such tourist attractions as forest reserves, wild-life, water-falls, etc. These have potentials to attract enormous holiday makers from European and Asian countries than they currently do. For instance, approximately 19 million Japanese tourists travel abroad annually, while
Uganda only gets about 1,000 of these tourists valued at $2.9 million. In 2005/6, only 500 out of this number visited Uganda. (The Monitor Newspaper, Wednesday, September 17 2008). Tourism opportunities exist in Uganda in the areas of provision of high quality accommodation facilities, organizing packaged tours and travels, development of eco-tourism, and so on. Kenya and Egypt remain some of the tourism top earners in Africa.

**Infrastructure**

Another area of great business opportunities in Uganda is in the provision of infrastructure. The potentials lie in the transport and logistics businesses and energy. Uganda is land-locked, and depends on land transportation for its import and export trade. Unfortunately, the road network is inadequate and their state deplorable. The rail system seems to have virtually collapsed. On energy, the exploitation of the abundant hydropower remains minimal, even as most part of the country’s hinterland remains without power. Only 10 percent of the potential 2700 megawatts of hydroelectricity in the country has been exploited, while only about the same proportion of the country’s population has access to electricity. Opportunities, therefore, exist in the commercialization and building of road and rail systems, as well as in power generation and transmission. These are very capital intensive ventures with long gestation periods that are well beyond the capital and financial resources available in the country. These opportunities, consequently, appear exclusive for the foreign investors with the requisite technical and financial resources.

**Manufacturing**

Manufacturing opportunities abound in Uganda, with its low manufacturing base. These are in virtually all products, particularly the basic ones such as beverages, paper, textile, pharmaceuticals, plastics, etc. This has made the country dependent on imported manufactured goods, mostly from Europe, Asia and the neighboring Kenya. Foreign investors, with superior financial bases, can take advantage of these opportunities, as the locals appear handicapped.

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<th>Table 1: General Investment Opportunities in Uganda in 2010</th>
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<tr>
<td><strong>1</strong> <strong>Agriculture</strong>: Opportunities include commercial farming and value-addition, the manufacture of inputs and supply of agricultural machinery</td>
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<td><strong>2</strong> <strong>Fisheries</strong>: Opportunities exist for fish-farming &amp; establishment of more fish processing factories on other lakes other than on Lake Victoria. Markets exist in Europe and USA.</td>
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<td><strong>3</strong> <strong>Forestry</strong>: With over 4.9 million hectares of rich forest vegetation, Uganda possesses abundant potential in timber processing for export, manufacture of high quality furniture and other wood products and packaging materials. Further opportunities exist in a forestation and reforestation especially of medicinal trees and plants, soft wood plantations to timber, pulp and poles.</td>
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<td><strong>4</strong> <strong>Manufacturing</strong>: Opportunities exist virtually in everything in all areas such as beverages, leather; tobacco based processing, paper, textiles and garments, pharmaceuticals, fabrication, ceramics, glass, fertilizers, plastics/PVC, assembly of electronic goods, hi-tech and medical products.</td>
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<td><strong>5</strong> <strong>Mining</strong>: There exist large under-exploited mineral deposits of gold, oil, high grade tin, tungsten/wolfram, salt, beryllium, cobalt, kaolin, iron-ore, glass sand, vermiculite and phosphates (fertilizer). A discovery of oil wells in Lake Albert has boosted the sector. There exist huge quantities of clay and gypsum.</td>
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<td><strong>6</strong> <strong>Infrastructure</strong>: Potential investment opportunities are plenty in transport &amp; logistics, and energy. Only 10 % of 2700 megawatts have been exploited of electrical hydropower. Market exits in the EAC region.</td>
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<td><strong>7</strong> <strong>Financial Services</strong>: opportunities exist for investment in international multinational banking groups particularly promoting new or innovative financial products such as mortgage finance, venture capital, merchant banking and leasing finance and also micro-finance saving institutions, which propose to operate in rural areas. Insurance, in particular, is still a relatively young sector and offers several opportunities for investment.</td>
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<td><strong>8</strong> <strong>Tourism</strong>: Opportunities include construction of high quality accommodation facilities, operating tours and travel circuits and the development of specialized eco-tourism</td>
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<td><strong>9</strong> <strong>Printing and Publishing</strong>: opportunities exist in the printing of textbooks for schools. Currently, imports make up 90 % of the demand estimated to US$7 m annually. Various types of printing is</td>
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needed such as flexography, screen printing, off-set printing and digital printing, electronic, magnetograph, ion deposition and direct charge deposition printing.

**Education**: opportunities exist for setting up independent private universities, branch universities and off-shore campuses. Other areas include technical and vocational training, technology-based education & distance education and student financing.

**Health**

**Information Communication Technology (ICT)**: opportunities in ICT include establishment of Information and communications infrastructure and broadband services, business process outsourcing services, computer and related equipment hardware assembly, high level ICT training facilities on international standards, ICT business and service incubation, hardware repair training facilities, software development niches, setting up information technology virtual zones (ITVZ), and setting up internet service providers (ISP) facilities in other parts of Uganda.


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<th>Table 2: Investment Opportunities in the Financial Sector in Uganda in 2010</th>
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| **Banking Industry** Uganda’s population is nearing 31 million but only 2.5 million people are benefiting from financial services. The opportunities in the Banking sector include:
  1. Establishment of Commercial Banks in upcountry urban and rural areas. Most banks in Uganda are located in Kampala, making the up-country urban and rural areas in great need of financial services;
  2. Establishment of Development Banks in urban areas and upcountry to provide medium term loans to investors in the industrial and agricultural sectors.
  3. Merchant Banking for advisory services and wholesale banking. Uganda hardly has any commercial banks with intentions to diversify into merchant banking.

**Foreign Exchange Bureaus** Establish foreign exchange bureaus in upcountry towns and urban centers outside Kampala

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<th><strong>Capital Markets Industry</strong></th>
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| 1. Brokerage, sales and tracking services firms with international experience and network;
  2. Fund management;
  3. Investment Advisors and Asset Managers to mobilizes capital (savings) for the market;
  4. Discount houses for making a market and securities thereby developing a secondary market for those securities;
  5. Underwriting of securities;
  6. Establishing of Investment banks;

**Insurance Industry** Various opportunities exist in the insurance sub sector considering that the industry has limited coverage in the country.

1. Provision of re-insurance services to encourage retention of premiums as well as build capacity in the industry. Currently Uganda has one reinsurance company;
2. Risk management;
3. Claims Settling Agents;
4. Reinsures and Reinsurance Brokers;
5. Provision of technical ancillary services in areas like brokerage and actuarial loss assessment;
6. Provision of life policies and other innovative assurances like agriculture and medical schemes;
7. There are opportunities in areas such as health, animal/farming, education and life insurance.
8. Establishment of Underwriters. Uganda’s insurance industry has taken advantage of the opportunities available under African Trade Insurance Agency and so far, the Agency has underwritten 14 projects in Uganda worth US $ 106 million in the areas of manufacturing, telecommunication and infrastructure (UIA, 2010:25-6).

**Pension and Provident Industry** Development and management of local, private and public pension and provident funds into which individuals and institutions contribute on a voluntary basis (UIA, 2010:25-6).

**Leasing Industry**

1. Provision of factoring Services to enable Small and medium sized enterprises access credit;
2. Establishment of more Leasing Companies. Uganda has only licensed 2 companies in the industry (UIA, 2010:25-6).

Source: UIA, 2010:25-6
FINDINGS

Investment Opportunities in Uganda

A number of opportunities exist in the entire economy. However, the government targets some as priority sectors. These include Agriculture, Energy, Health, Education, Mining and Services such as tourism, finance and ICT. It also targets countries, such as UK, USA, Kenya (EAC), South Africa, India, China, UAE and Singapore as good sources of foreign direct investment into Uganda (Interview with a source at UIA, October 2011).

Kibikyo (2008) and Ajaegbu (2011) identified the contradiction in the fact that 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 Uganda Investment Authority (UIA) through a statutory instrument.

Determinants of FDI Inflow into Uganda

The chief determinants of FDI inflow into Uganda have been the economic considerations of the expanding market size, abundant natural resources, and the stable and deregulated economic policies of the government. The Ugandan population has been rapidly growing, and is currently estimated at well over 30 million. The country is also a member of the East African Community (EAC), an economic bloc of five countries, namely Uganda, Kenya, Rwanda, Tanzania, and Burundi, with an estimated population of about 130 million. Also, the country is blessed with so many mineral resources such as gold, tin, cobalt, iron-ore, gypsum, etc; with the newly-discovered oil deposits in the Lake Albert region of Western Uganda heightening the interest. Further, the country has, since the late 1980s, maintained a regime of stable economic policies anchored on deregulation and privatization; including the operation of open current and capital accounts that allow foreign investors to bring in capital into the country and to repatriate same at will. These have combined to encourage the inflow of FDI into Uganda.

Obwona and Egesa (2006) examine the destination of FDI among the sectors of Ugandan 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; and in addition, a string of policies has been implemented in recent times to achieve macroeconomic stability. They identify important factors in attracting FDI into Uganda 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; amongst others, which have all contributed significantly to FDI attraction; and concluded that no one factor has single handedly affected the flows of FDI into Uganda.

On the opposite side, certain factors continue to act as draw-backs to the inflow of FDI into Uganda. These are mainly non-economic factors, and include such political and social issues such as the fragile nature of the country’s democracy, and the prevalence of corruption in government. Obwona and Egesa (2006) thus 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.

Gateways for FDI into Uganda

As earlier stated, FDI can take the form of either “greenfield” investment ("mortar and brick" investment) or
merger and acquisition (M&A), depending on whether the investment involves mainly newly created assets or just a transfer from local to foreign firms. Also, most investments have taken the form of acquisition of existing assets rather than investment in new assets, which raises particular concerns for developing countries, such as the extent to which they bring new resources to the economy, the denationalization of domestic firms, employment reduction, loss of technological assets, and increased market concentration with implications for the restriction of competition (Ntwala Mwilima, 2003).

However, and luckily too, the experience of Uganda in this respect has been different. Most of the FDI into the key sectors of Ugandan economy have been “greenfield”. This is the experience in the banking industry where most of the entrants since the ban on licensing of new banks was lifted in 2005 have come in through the establishment of fresh operations in the country. Also, in the Oil sector, the major players such as Heritage Oil, Turlow, and others were “greenfield” investments.

RECOMMENDATIONS
Resolution of Certain Political and Social Issues

Certain political and social factors were identified as constituting draw-backs to the attraction of FDI into Uganda. These include the fragile polity and corruption. These need to be resolved if foreign investments are to increasingly flow into the country.

Democracy needs to be further entrenched in the country through continuous tolerance for the opposition and the conduct of free and fair elections. The tell-tales of corruption in the country must be equally matched with stories of government’s successful efforts to combat the scourge; otherwise, wrong signals will continually be sent to intending foreign investors who are considering Uganda as their possible investment destination, as increasing emphasis is being placed on transparency and ethics in business transactions in the developed world which are also the major sources of FDI.

Removal of Restrictions on Foreign Participation in Agribusiness

Foreign investors should be allowed to invest in all aspect of agriculture if the vast potentials of the sector are to be optimized. 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.

Promotion, Facilitation and Supervision of Foreign Direct Investment (FDI)

It is just not enough for a country to have an abundance of investment opportunities, like Uganda. Indeed, with the advancement in technology and the increasing improvement in the investment climates, most countries are now in good stead to attract foreign investment; thus heightening the competition for foreign direct investment (FDI) among several
nations. Conscious efforts must, therefore, be made by countries if they are to become the destinations of choice for FDI.

It is not in doubt that Uganda has the abundance of investment opportunities. It should, however, complement this with deliberate policies to attract, retain and optimize the benefits inherent in foreign direct investment. This will involve the promotion, facilitation and supervision or regulation of FDI. Investment Promotion will sell the country’s huge investment opportunities to the rest of the world; Investment Facilitation will ensure that the foreign investors are retained and increasing shares of their investment wallets obtained by drastically reducing the difficulties they encounter in doing business in the country; while Investment Supervision or Regulation will guarantee that these foreign investments are not solely for the benefits of the foreign investors, but also for the benefit of the local economy.

These underscore the enactment of the Investment Code Act, 1991, and the consequent establishment of the Uganda Investment Authority (UIA).

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