UGANDA EXPORT POLICY AND INVESTMENT PROMOTION OPTIONS UNDER ANEPP

FINAL REPORT

Bureau for Global Programs
U.S. Agency for International Development

Prepared for: *USAID Uganda*
and
Bureau for Africa, Office of Operations & New Initiatives

Prepared by: *The Services Group*

Sponsored by: *Private Enterprise Development Support Project II*
Project Number 940-2028.03
Contract Number PDC-2028-Z-00-7186-00
Prime Contractor: Coopers & Lybrand

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Abbreviations and Currency Equivalents

Abbreviations

ANEPP	Agricultural Non-Traditional Export Promotion Program
BOU	Bank of Uganda
EC	European Community
EPADU	Export Policy Analysis and Development Unit
FIAS	Foreign Investment Advisory Service
GOU	Government of Uganda
MFEP	Ministry of Finance and Economic Planning
MIGA	Multilateral Investment Guarantee Agency
MTI	Ministry of Trade and Industry
NPA	non-project assistance
NTE	non-traditional export
PEC	President's Economic Council
PEDS	Private Enterprise Development Support
SGS	Societe Generale de Surveillance
SWEDCORP	Swedish Assistance Program
UEPC	Uganda Export Promotion Council
UIA	Uganda Investment Authority
UMA	Uganda Manufacturers Association
UNDP	United Nations Development Program
UNIDO	United Nations International Development Organization
URA	Uganda Revenue Authority
USAID	U.S. Agency for International Development

Currency Equivalents
(January 1994)

Currency Unit	Uganda Shilling (U Sh)
US$1.00	U Sh 1000
U Sh 1,000	US$1.00

Executive Summary

Introduction

The purpose of this report is to provide USAID/Kampala with input into the Mission's amendment of the Agricultural Non-Traditional Export Promotion Program (ANEPP). The analysis focuses on two areas: export policy and investment promotion. The report has been prepared by The Services Group, a subcontractor to Coopers & Lybrand, under the Private Enterprise Development Support (PEDS) project with the U.S. Agency for International Development.

Export Policy

Uganda has accomplished a great deal on macroeconomic policy but the government of Uganda (GOU) has not yet created an export policy framework. While the Investment Code represents a strong improvement over past investment policy in Uganda, it is not competitive with many export programs currently being established in Africa. The primary export incentives offered within the region include:

- duty drawback/exemption schemes;
- manufacturing-under-bond;
- export processing zones;
- partial export regimes;
- foreign exchange export retention schemes;
- preferential investment and export financing;
- direct export sales subsidies;
- preferential utility and transport costs;
- investment facilitation.

Uganda's Competitiveness

Of these incentives, Uganda can be considered competitive only in offering investor facilitation services and easy access to foreign exchange. Uganda's comparative policy disadvantages include:

- from the tax perspective, Uganda's three to five year tax holiday is less than those offered under most regional EPZ programs;

- Uganda's duty drawback is non-functioning and while bonded facilities do exist there is not a manufacturing-under-bond program per se;

- Uganda offers no partial export regime and there are no policies in place to encourage indirect exports;

- the export finance program has been subject to excessive delays and has not performed to the satisfaction of most exporters;

- time consuming and cumbersome import/export procedures;

- monopolies on air freight handling, electricity and international telecommunications service;

- restrictions on foreign land ownership and inefficient land allocation process.

- while the UIA has put great emphasis on investor facilitation services, severe delays are still encountered due to the intransigence of partner agencies.

Therefore, it is recommended that a study be conducted to put Ugandan exporters on an equal footing with import substitution activities as well as with export regimes offered in neighboring countries. This study should take into consideration Uganda's strengths and weaknesses, costs and benefits of specific incentive options, and the GOU's ability to implement and oversee various export policy options.

Many of the regulatory obstacles faced by export firms are implementation problems. For example, a duty drawback system exists on paper but no firm has yet received a duty drawback payment. Similarly, there are a number of steps which could be taken to simplify and accelerate import/export procedures. While EPADU has given hands-on implementation assistance to exporting firms, no assistance has been provided to the GOU for hands-on implementation assistance for improving import/export procedures, duty drawback, and other nuts and bolts government services that greatly impact the overall export environment. Consequently, it is recommended that under an amended ANEPP, USAID provide highly targeted implementation assistance for these type of activities.

Institutional Placement

Given the need for a policy analysis and implementation unit, the question of where such a unit should be placed is critical. While there is no perfect institutional model for the development and implementation of export policy, improper placement of this function would exacerbate bureaucratic turf battles, reduce its eventual effectiveness, and limit capacity building and transfer of knowledge. Several institutional options were discussed with the private and public sectors. It should be emphasized that at this juncture, most interviewees were more interested in moving forward with export policy and implementation than with continuing the long-standing institutional debate.

At a GATT, PTA, Lome, and COMESA level, it is recommended that this type of trade policy analysis should remain within the Ministry of Trade and Industry. But for an export policy analysis and implementation function, it is recommended that this function be transferred to the new Uganda Export Promotion Council (UEPC).

This placement would have a number of advantages. First, it would not entail the creation of an entirely new organization. Second, as an autonomous organization it would not be perceived as being under the influence of any particular Ministry and would reduce potential bureaucratic turf battles; this would increase the organization's ability to work with a number of different government ministries and agencies. Third, a mixed Board would allow the organization to get feedback from the private sector on which issues need to be addressed, but public sector members would help ensure that recommendations were properly implemented. Fourth, as an autonomous organization linked to the GOU, the new UEPC would be outside the civil service and could thus attract and retain high quality personnel.

In contrast, the placement of these functions within the Ministry of Trade and Industry (MTI) or Ministry of Finance and Economic Planning (MFEP), would mean a lack of autonomy, civil service payscales, and lack of a mixed public and private sector Board of Directors. Placement of the unit in the Office of the Presidency was also discussed but with the single exception of an official within the President's office itself, this option was strongly rejected by our interviewees. Placement in the President's office would perpetuate structural irregularities for the export sector that are only now being cleared up and there would always be the possibility that more pressing national concerns could marginalize export policy analysis and implementation issues.

The prospect of locating an export policy and implementation unit within a restructured UEPC met with a large degree of approval from those in both the private and public sectors. Perhaps surprisingly, even well placed individuals in both the Ministry of Finance and Economic Planning and the Ministry of Trade and Industry expressed the view that a newly restructured UEPC -- if properly configured --

could be an engine for change. While the consensus was that ANEPP's policy function should reside in the new UEPC, it was not unanimous. It is worth noting that even those who first suggested another option often stated that a unit within the new UEPC could be effective.

This is not to say that no institutional obstacles remain. On-going concerns remain regarding structure and financing. The final structure of the new UEPC has not been agreed to. Amendments will have to be made to the UEPC Act which will be difficult with elections drawing near. Moreover, there remains an overall financing problem as the GOU's support of the UEPC in the past has been weak. USAID's support would be only for a particular aspect of the new UEPC -- the export policy analysis and implementation unit. While the GOU plans to fund the UEPC with a portion of the 1 percent import cess, last year the "old" UEPC received less than five percent of the cess revenue. It is likely however, that the UEPC will get a higher level of funding once it has been restructured.

Investment Promotion

The Uganda Investment Authority (UIA) is a statutory body established under the 1991 Investment Code. The organization is led by a Board of Directors but is responsible to the Ministry of Finance and Economic Planning. As of November 30, 1993, the UIA had received nearly 730 project proposals of which 588 had been approved. Site visits by UIA staff to 209 established projects found that over US$170 million in investment had occurred (in June 1993 it was estimated that approximately 3,700 jobs had been created); these figures compare well to other investment programs in Africa.

UIA Strengths

Apart from the high investment levels already achieved, the UIA has demonstrated a number of important strengths:

- a high level of autonomy and active Board of Directors with significant private sector input;
- a hard-working and dedicated staff;
- an ability to handle a much larger number of investors than originally anticipated;
- a relatively efficient approval process;
- well conceived organizational plans;
- effective institution building in a short amount of time;

- realization that investor facilitation services are the most important first phase promotional activity for Uganda;

- unlike many African investment promotion offices, vague overseas image building campaigns have been kept to a minimum.

Areas for Improvement

Despite its overall strong performance, there are areas which can be further improved, and UIA officials are in the process of addressing many of them. These areas include:

- resolving problems with partner agencies on issues such as access to land, utilities, and work permits;

- better targeting of promotional efforts;

- lack of short and inexpensive promotion materials;

- use of lower cost, but better focused media outlets in advertising campaigns;

- lack of understanding within Uganda of what the UIA does and what it has accomplished.

UIA's Financial Support

USAID's present commitment to the UIA extends through June 1994. Until recently, it was expected that the World Bank would assume the UIA's recurrent expenses in the second half of 1994. However, it is now unlikely that the World Bank will establish the project which was to provide funding to the UIA. For fiscal year 1994/1995, the World Bank was expected to provide US$917,000; the figure hoped for through 1997 was nearly US$4 million. As a result, the continued activities of the UIA at current levels are in doubt unless greater than originally anticipated funding can be obtained from the GOU, donors, and/or through UIA fees on investors.

It is recommended that USAID use this budget shortfall as an opportunity to diversify and strengthen the UIA's ability to become financially more sustainable. A one-time graduated or flat application fee of US$500 or less for those requesting incentives is fairly standard internationally. This would likely have little or no impact on new investment and could provide a significant source of new revenue for the UIA. In addition, the one percent import cess that is shared by the UEPC, Tourism Board, and National Bureau of Standards should also include the UIA. Senior MFEP and MTI officials consider this a sound approach. Given the present revenue collected from the cess, and the expected needs of the three organizations, there should be sufficient funds available to cover a significant portion of the UIA's recurrent costs.

Given the strong performance of the UIA to date, USAID's longstanding support to the institution, and the importance of investment promotion to Uganda's future economic development, it is recommended that USAID strongly consider funding the activities originally envisaged under the World Bank program. The full extent to which USAID assumes these responsibilities depends on the UIA's ability to secure other funds. If the UIA attains greater financial sustainability through the import cess or investment applications -- which USAID should encourage -- not all of the World Bank activities would have to be assumed.

In an effort to make the UIA more financially stable over the long-term, it is recommended that USAID consider offering non-project assistance in exchange for the GOU giving a portion of the import cess to the UIA. This short-term infusion of funds by USAID would pave the way for the GOU in assuming investment promotion expenses. A further advantage of this approach is that GOU funding would give the UIA a greater level of flexibility than funding provided by donors.

Link Between Export Policy and Investment Promotion

The link between export policy and investment promotion is strong as investment promotion efforts commonly focus on attracting export oriented investments. Studies have shown that investment promotion activities had little impact on projects oriented towards domestic markets but had substantial impact on export-oriented projects. This is because for firms interested in a country's domestic market, the market itself is the attraction and promotion is likely to play only a minor role. In contrast, export-oriented firms can choose between a wide range of countries. Consequently, an investment promotion organization is most successful when focused on export-oriented investment.

Section 1

Introduction

Overview

This report has been prepared by The Services Group, a subcontractor to Coopers & Lybrand, under the Private Enterprise Development Support (PEDS) project with the Agency for International Development. The purpose of the report is to provide input into the Mission's amendment of the Agricultural Non-Traditional Export Promotion Program (ANEPP).

The consultants were asked to focus on two areas. First, whether there is a need to provide external support for the analysis and implementation of an export policy and regulatory framework. Consequently, Chapter II of this report briefly reviews current export policies and regulations as well as the primary institutions involved in this arena. Second, the question of investment promotion is addressed in Chapter III. As part of this, the adequacy of the current Investment Code in encouraging export activity is examined.

Both Chapters II and III identify potential areas of assistance that could be undertaken by USAID under an ANEPP extension. Chapter IV is the last section of the report and it discusses the links between export policy and investment promotion.

Export Policy

Overview

Uganda's agricultural sector is the major contributor to the country's GDP, representing over half in 1992. As this is not likely to change in the near future, the country's economic growth will remain significantly tied to the success of this sector. As noted in the October 1993 Agricultural Non-Traditional Export Promotion Program (ANEPP) evaluation, "an export strategy for agricultural based commodities emphasizing diversification seems to be a reasonable approach to support sustainable economic growth."

The President of Uganda recognized this when he declared:

> "Our economy is dominated by agriculture, and remains dependent on growth in the agricultural sector. Such growth has to meet the rising food requirements of a growing population. Through exports it also has to generate foreign exchange earnings to enable us to import agricultural inputs which we are not able to produce on our own, modernize our economy, and improve the living standards of our people."

Successful export promotion though requires a supportive export policy environment. To this end, USAID established ANEPP to assist in developing a "climate of confidence" by providing analytical support to the Government of Uganda (GOU) and private exporters through the AID-created and -supported Export Policy Analysis and Development Unit (EPADU).

This section will briefly review some of the important policy changes that have already occurred in order to better understand and highlight critical actions to be taken as part of a continuing policy analysis and implementation agenda. In addition, several possible institutional arrangements for pursuing this future agenda are discussed against a backdrop of critical management considerations. Finally, the form of AID/Kampala's support for the proposed agenda is examined.

Current Export Policy and Regulation

Uganda has accomplished a great deal on the macroeconomic and policy front and, as a result, the environment for exports has substantially improved. EPADU, through its Policy Paper No. 4, entitled Export Strategy, played an important role in this development. The paper offered a review of the GOU's economic management of the export sector, suggesting measures which would serve to improve it. As a result of this and other export policy and promotion efforts, the GOU implemented some significant policy changes. Those changes contributing to an amelioration of the export climate, include:

- Lowering of tax and tariff rates, and thus reducing the level of anti-export bias;
- Liberalization of access to foreign exchange and the creation of a realistic exchange rate;
- Deregulation of fixed prices and the abolition of government monopolies (except for cotton, telecommunications, and electricity);
- Establishment of the Uganda Investment Authority (UIA) and the passage of a fairly liberal Investment Code;
- Repeal of external trade licensing. With the advent of the new system, import and export certificates are typically delivered within one day.

While much has been accomplished, there remains much to do, if the potential positive impact of a number of the above policy improvements is to be realized. In addition, the GOU has not yet acted upon EPADU recommendations to create an export policy framework. As such, there is a need for export incentives such as a working duty drawback scheme, reduced tax levels for exporters, and functioning export financing programs. As discussed in greater depth in Chapter III, Uganda's Investment Code is not competitive with many export programs currently being established in Africa. The October 1993 ANEPP evaluation report identified a need to continue efforts in diverse areas such as fiscal policy, legal and regulatory reform, credit, land tenure, and private provision of utilities.

The results depicted in Table II-1, next page, are indicative of an implementation environment out of sync with the intent of the broader, macroeconomic export policy. Despite GOU desire to encourage exports, the table shows the bulk of investments continue to focus on the domestic market, with relatively few in agriculture -- ironically the one sector in which most people agree that Uganda has some comparative advantage.

Identification of Export Policy Constraints

The improvements within Uganda's broad macro policy environment are commendable. Improvement at the macro level though is not sufficient to allow non-traditional exports to prosper. Less visible regulatory constraints can have a debilitating impact, requiring continued, time consuming, and costly personal intervention on the part of exporters. In short, the implementation of regulations in support of, and reflecting, the GOU's export policy intent significantly lag behind policy adoption. Moreover, poor implementation of policy can produce an unstable business environment or, worse yet, result in an unintentional and seemingly ad-hoc shift in policy.

Table II-1
Market Orientation of Investments

Industrial Sector	Export-Oriented	Domestic-Market Oriented	
		Import Competing	Others
Agriculture, Forestry & Fishing	4	-	19
Mining and quarrying	3	-	2
Trade, hotel, and restaurants	-	-	35
Insurance and business services	-	-	40
Construction	-	-	28
Transport and storage	-	-	11
Manufacturing	23	171	-
Total = 336	30	171	135

Source: Study of the Effectiveness of Policies, Facilities and Incentives for Investment Promotion (draft final report)," Maxwell Stamp, PLC, April 1993.

Without a comprehensive export policy and implementation agenda (e.g., workable duty drawback and manufacturing-under-bond, streamlined customs procedures, improved export financing schemes, elimination of certification, improved tracking at the container depot, etc.) exports will have difficulty becoming the foundation of Uganda's future economic growth that the GOU expects -- and Uganda is counting on. Moreover, there are precedents -- Jamaica, Costa Rica, Kenya -- for the success of such policy implementation programs in removing regulatory constraints to export development.

Implementation Constraints

Despite the notable improvement in the macroeconomic environment, numerous second-tier policy and implementation constraints remain.

General Bureaucracy

Though the private sector generally agrees that the business climate has improved, particularly with customs (less corrupt and better trained), most still report that the uncoordinated, time consuming, and often unnecessarily complicated procedures of those agencies granting a variety of approvals and incentives impose extra non-tariff costs (e.g., hiring people to deal exclusively with obtaining approvals) and reduce the effectiveness of macroeconomic policy reforms. Examples of such encumbrances include the need for an import certification for each shipment and the need for SGS (Societe Generale de Surveillance) valuation on any import above US$2,500 in value. Such needless constraints demonstrate a continuing lack of trust between the government and private sector necessary for successful export policy and promotion programs.

Duty Drawback Scheme

Like most countries, Uganda's duty drawback scheme is inefficient, denying exporters access to inputs at international prices. Duty drawback paper work is very bureaucratic and time consuming. As a result, few exporters entitled to the drawback even bother to apply; the Uganda Revenue Authority reports that only three firms have requested duty reimbursements since last year's Budget Speech when the GOU announced its intention to revive the program. (Rationalization of the scheme is one area that most people agree needs immediate and serious attention.)

An example of the scheme's ineffectiveness is the importation of gunny sacks for use in exporting grain. The use of imported gunny sacks for the export of grain should be a relatively easy item on which to calculate a duty drawback (i.e., a given export sales volume divided by an average sack weight equals the number of sacks used which should be duty exempt). If the system cannot be made operational for gunny bags, then it will be extremely difficult to utilize for more complex chemical or other manufacturing processes.

The GOU, in establishing the scheme, has demonstrated an appreciation of a drawback program's importance to export policy. However, lack of implementation has made the scheme totally ineffective. One possible reason for the GOU's slow implementation of duty drawback is its negative revenue impact. No funds were allocated for drawback, and the URA could only offer credit towards sales tax.

Manufacturing-Under-Bond

An theory, manufacturing-under-bond should ease a producer's working capital burden, as duties are only paid when the inputs are taken out of the bonded warehouse. The system as practiced in Uganda is hampered by the need for physical, rather than paper, control of bonded inventory. Customs does not have the resources or expertise to rely on paper control, nor sufficient staff to place a customs officer on all premises to ensure physical control. Moreover, a shortcoming of the double-key, physical control system[1] is that it can lead to work stoppages if a customs agent is not on-site when material is needed from the warehouse -- a not so uncommon occurrence. As a result, a manufacturing-under-bond system for exports currently does not exist in Uganda.

Import/Export Procedures

A time consuming and cumbersome process, trade licensing has been replaced with a simpler export and import certification system. Moreover, with the adoption of short negative lists for both imports (e.g., used motor vehicles and tires, equipment of the Posts and Telecommunication Corporation and the Electricity Board) and exports (e.g., hardwoods), there is a diminishing need for even import and export certificates. Yet such a requirement remains in effect and, as such, continues to be an obstacle for firms in Uganda. In addition, the Bank of Uganda still requires the use of Form E which can delay the import procedure.

Another procedural obstacle is the need for all containers coming into Uganda to first pass through a customs container depot. As noted by several importers and exporters, this further retards delivery of inputs that already take up to a few weeks, rather than a few days, to arrive from Mombasa. As there are no real systems for expeditiously organizing container inspection (or releasing it if it is destined for a bonded facility), clearing the centralized container depots can cause further delays of three to seven days. In addition, it also increases handling, as the containers must be off-loaded at the depot and then reloaded, and requires making arrangements with two transporters -- one from Mombasa to the depot and another from the depot to the manufacturing site.

In addition, the private sector is increasingly questioning the usefulness of the SGS. Chamber of Commerce officials wonder why SGS is required if the URA does not accept SGS' valuation. The SGS valuation is increasingly perceived as unnecessarily increasing costs and delays. In fairness, the UMA (Uganda Manufacturers Association) reported few complaints from its members regarding SGS. Nonetheless, UMA officials agreed that the utility of the service is in question.

Export Financing

Uganda offers less than ideal export financing mechanisms and the lack of well-functioning pre- and post-shipment export finance and guarantee schemes remain as obstacles. Many exporters resort to

[1] A double-key system refers to one in which both Customs and the firm must be physically present to have access to the inputs because the lock requires both of their keys to be opened; individually, neither party can have access to the inventory.

using higher cost overdraft facilities, while others do not have even this option.

Though finance, refinance and guarantee schemes exist, they have performed poorly. Reportedly, no pre-shipment finance system currently operates in Uganda as one requirement is a Letter of Credit, normally opened by an importer just prior to shipment. Pre-shipment financing, however, is often used by traders to purchase goods from farmers, before a Letter of Credit exists. The Letter of Credit requirement creates an unserviceable loop -- no letter of credit - no financing; no financing - no purchases from farmers; no farmer purchases - no letter of credit. When Letters of Credit are available they are reportedly heavily discounted. The present export financial scheme is also handicapped in that it cannot be used for consignment sales, a common practice for certain high value agricultural exports.

Likewise, it has been reported that banks are not much better when it comes to post-shipment financing. Of 75 loans made, 14 account for 50 percent of disbursements and, of these, nine are in arrears -- representing nearly half of the bad debts under the scheme.

In addition, the Bank of Uganda's (BOU) export financing guarantee scheme is ineffective. Although claims have been presented to the BOU, it is reported that no claim has ever been accepted for settlement.[2]

The purpose of the BOU's export refinance scheme is to encourage banks to lend to the export sector by refinancing a bank's export credit. The BOU's (re)appraisal of every loan under the export refinance scheme, however, results in long delays and a reluctance on the part of banks to even submit loans. In two and a half years, of seventeen banks in Uganda, only eight have refinanced export loans for a total of USh 8.9 billion and a disbursement value of USh 6.7 billion (half of this by one bank). The arrears rate is nearly twenty percent, which is higher than normal for this kind of program.[3]

Related to this, the commercial banking system is in general still evolving. As several people noted, there is an overall lack of customer service by the banks, which results in long delays in clearing drafts, inconvenient hours, and inability to accept night deposits. This forces many traders to operate on a cash basis to avoid finance or holding charges, resulting in an indirect tax and a situation in which business people expose themselves to robbery. In a recent letter to the editor

[2] "Advisory Assistance to Redesign and Implement an Improved Export Finance, Credit Guarantee and Export Credit Insurance System (draft)," Ivan Nyiri, March 1994.

[3] ibid.

appearing in the New Vision, one trader described the process of paying duties and the difficulties in dealing with commercial banks:

- "Ring one's bank to make [sure] that [the] money [will be] ready; probably takes a day;
- "Joining the queue and counting the money when drawing it or taking a chance which normally means being short changed;
- "Carrying the money physically to Uganda Commercial Bank and again joining the queue, and;
- "Waiting for the money to be recounted (and usually short) and obtaining a receipt."

Uganda Revenue Authority

The Uganda Revenue Authority (URA) is not perceived by some as an even-handed agency. The URA is accused of using rough tactics to collect on what are considered high tax rates vis-à-vis Kenya and Tanzania. It has been known to use its own exchange rate too, reportedly operating at USh 1100 to the dollar when the going rate was under USh 1000 to one US dollar. Officials at the Chamber of Commerce also noted that URA will often revalue upwards SGS' valuations.

To be fair, dishonest traders are part of the problem, while others feel the URA is simply experiencing some start-up difficulties. The authority is trying to address procedural and implementation problems and provide training to its personnel. Despite on-going problems, UIA officials note improvement in dealings with the URA.

Privatization

Critical government monopolies still exist in the fields of telecommunications and electricity. These parastatals result in unreliable electricity service, as evidenced by frequent power fluctuations, outages, and high installation costs and uncompetitively high telecommunication costs, rendering the service a liability to be managed rather an asset to greater sales.

Airport Management

High landing fees, handling charges, and fuel taxes at the Entebbe airport contribute to increased freight rates for exporters. This is particularly unfortunate for exporters of high value agricultural crops, as air cargo charges can represent nearly half of the total delivered cost.

Land Titling

Working land ownership and leasing regulations are important for both local and foreign investment in non-traditional agricultural export crops. Absence of titles makes it more difficult to provide collateral, and thus exacerbates the problems of obtaining finance.

Proposed Implementation Agenda

Though the macro export policy environment has significantly improved, a comprehensive export policy framework is not in place. The objective of such a framework would be to stimulate exports of existing and new firms by simplifying and improving transparency of export procedures and providing real incentives to export.

There are many practical, nuts and bolts implementation issues to tackle as well. A well focused ANEPP extension could alleviate some of the major constraints identified by individuals in both the public and private sectors.

To do so will require astute management of a diverse but targeted agenda and access to specialists. The focus of the proposed agenda concentrates on making current export policy function at day-to-day levels. Potential areas to address include:

- Development of a coordinated export incentives package;
- Development of a functioning duty drawback exemption scheme;
- Creation of useful export financing programs;
- Improvement in customs procedures.

Each of these issues has received the endorsement of those in the private and public sectors, which sees them as real constraints to an effective export environment.

Export Incentive Study

It is essential to carry cut a review of the export incentives necessary to put Ugandan exporters on an "equal footing" vis-à-vis import substitution activities as well as with neighboring export regimes. (Related to this, the World Bank will soon embark on a study of an export processing zone program.) In addition, the establishment of "performance based" incentives could encourage export-related employment and investment.

This study should take into consideration Uganda's strengths and weaknesses, the costs and benefits of specific incentives, and the GOU's ability to implement and oversee various export policy options. The policy analysis implementation unit proposed in this report could then help to put the export policy framework into place.

Functioning Duty Drawback/Exemption

There is near unanimous agreement that a duty drawback scheme must be made operational if Ugandan firms are to compete on external markets. The failure of the current drawback scheme raises the price of exported Ugandan goods, adversely impacting regional and extra-regional competitiveness.

Uganda's scheme appears to be an individual drawback scheme relying on input/output coefficients, a more complicated, time consuming approach than either a post-audit duty exemption or a fixed rate drawback scheme. In addition, Uganda's drawback scheme does not apply to indirect exporters, only direct exporters. A study should be conducted to determine which type of duty drawback/exemption scheme is most appropriate for Uganda.

Useful Export Financing Scheme

Commercial banks in Uganda and the Bank of Uganda, with outside financial assistance, once had three potentially useful export programs providing export financing, refinancing, and export financing guarantees. None of these has worked satisfactorily due to design and implementation problems. Yet the recent experience of Swaziland and Lesotho is that effective, efficient finance schemes can be developed, and locally managed, to encourage and support exports. The lack of useful export finance options remains one of the most important constraints to exports in Uganda.

Export financing facilities are particularly important in Uganda due to the fact that most current exporters have been local citizens. In other countries developing non-traditional exports (NTEs), export finance can be less critical in that foreign investors can generally access finance from outside the country. This is not an option for many of Uganda's emerging exporters.

Streamlining of Custom Services

Besides duty drawback, there is a generally accepted notion that URA services overall, particularly at the customs level, need attention to remove obstacles in regulations and bureaucratic processes. Some of the suggestions put forth by those in both the public and private sector include:

- Increased emphasis on written directions (procedures) and their dissemination to the private sector;
- Elimination or simplification of often time-consuming administrative procedures;
- A review of SGS' effectiveness leading to either a rationalization or elimination of its service;

- Development of a tracking system at the container depots and for customs operations in general;

- An increase in training of URA/custom agents so they can perform more efficiently;

- Investment in appropriate computer hardware and software to facilitate work;

- Elimination of the certification system altogether as it no longer serves as a necessary control device following the liberalization of foreign exchange policies.

Institutional Responsibility for Policy Analysis and Implementation

Governments often concentrate on finding the ideal structure for investment and export promotion activities. Significant energy and discussion goes into finding a "magic bullet" that will address the private and public sector needs, while simultaneously being politically acceptable. While understandable, this is often misguided. Typically, there is no magic bullet. A wide range of approaches can be made to work -- provided that a government has the will and commitment. The ideal structure can fail without adequate government support. Conversely, a less-than-ideal structure can succeed with proper backing. As stated in Wint and Wells:

> "Real reform will not occur without the bolstering effect of strong political will. That will is not likely to be sufficiently clear unless the country's head of state is an active participant in the reform effort and continues to insist that reforms not be undercut."[4]

Presently in Ugandan public and private circles there is a growing sense of the need to proceed -- to implement policy rather than study it. Consequently, it becomes critical that the institutional structure for investment and export promotion finally be settled.

Desired Characteristics

There is no perfect institutional model for the development of export policy. That being said, improper institutional placement of the policy implementation responsibilities under an amended ANEPP would only exacerbate bureaucratic turf battles, reduce its eventual effectiveness, and limit capacity building and the transfer of knowledge. Before considering the suitability of several possible institutional arrangements for ANEPP, it is instructive to weigh the institutional characteristics expressed by those in Uganda as important:

[4] "Facilitating Foreign Investment," Louis T. Wells and Alvin G. Wint, FIAS, 1991.

- An ability to work with and influence various line ministries and their departments charged with carrying out export-related activities, e.g., Ministry of Finance and Economic Planning, Ministry of Trade and Industry, Ministry of Transportation, Bank of Uganda, Uganda Revenue Authority, Customs Department, Civil Aviation Authority, etc.

- A largely autonomous organization, capable of representing the private sector while effectively coordinating the efforts of diverse public and private entities;

- Intellectual honesty;

- Substantial private sector participation and important government representation to enhance access to senior level officials;

- Access to adequate funding to ensure the consistent delivery of professional services;

- A well trained, highly motivated staff receiving competitive compensation packages;

- Independent Board of Directors;

- A proactive, but flexible, agenda;

- A clear, focused export mandate.

Institutional Options

Institutional options were explored and discussed during interviews with business and government leaders. Though opinions were not in full agreement a consensus appears to be emerging. At this juncture, it should be emphasized that people are more interested in moving forward with export policy, implementation, and promotion, than with continuing the long-standing institutional debate. The advantages and disadvantages of each option are discussed below.

Ministry of Trade and Industry

At a GATT, PTA, LOME, or COMESA level, most agree that the Ministry of Trade and Industry must take the lead. The consultants strongly believe that this level of policy analysis should remain with the MTI. Beyond this though, there is less agreement about the ministry's potential effectiveness as an engine for export policy and implementation.

Still there are some who expressed the view that export policy, at any level, is the purview of the Ministry of Trade and Industry. As such, they believe its capacity to analyze and resolve export policy issues or implementation bottlenecks should be augmented.

Those dissenting from this belief cite the lack of autonomy, the lack of any real results to date from the Ministry, and likely resulting turf battles as reasons to develop export policy and implementation capacity in another institution. Research of others also suggests that "a public service organization is not well suited to serve as a mechanism for providing feedback from exporters on policy formulation."[5] (This is an observation that applies equally to several other institutional options discussed below.)

The Cabinet's decision last year to shift EPADU's export promotion activities to the UEPC and to increase the UEPC's funding through the import cess has had major implications on any institutional structure chosen. This is particularly true given that the UEPC is being restructured to give it greater autonomy and more private sector input. Consequently, some feel that this is an opportune time to move EPADU's export policy functions into a new autonomous UEPC.

Ministry of Finance and Economic Planning

This option essentially calls for the status quo as ANEPP's current policy capacity resides in the semi-autonomous EPADU, which is attached to tne Ministry of Finance and Economic Planning. Generally speaking, EPADU is considered to have been quite successful.

The creation of EPADU as the project's implementing agent allowed USAID to support market-oriented reforms in a crucial ministry. Moreover, as others interviewed noted, many of the most difficult implementation constraints will likely fall under this ministry's purview.

EPADU's attachment to the Ministry, while simultaneously remaining outside the civil service, means that highly qualified personnel could be recruited, without depriving the unit of access to the GOU. It has been free to hire and fire without outside interference. Its employees, though they ultimately report to the Ministry, are not part of the civil service and receive salaries similar to those paid to the private sector.

Unlike the UIA and the UEPC, EPADU is not a statutory organization. As such, EPADU does not have life beyond the ANEPP project. Its functions are to be absorbed by the MFEP and there is a provision for EPADU personnel to return to the civil service. However, it is quite conceivable that the MFEP could lose this policy analysis capacity, post-ANEPP, as EPADU personnel may be unwilling to return to the low salaries offered under the civil service.

EPADU is lacking one of the more important criteria in that it does not have an independent Board comprised of both public and private

5 "What Goes Wrong in Official Promotion and Marketing Assistance for Manufactured Exports from Developing Countries (revised draft)," Donald Keesing and Andrew Singer, October 1989.

sector members. This has been identified as a critical element and could necessarily call for reconsideration of EPADU's current structure.

Still, its placement within the Ministry of Finance gives it a direct line to key policy makers. This structure has proved invaluable in getting proposed reforms aired and approved. However, at an implementation level, involving several different ministries, many feel that such a close tie would actually be detrimental and would fuel, rather than extinguish, on-going turf battles. Moreover, EPADU's current policy advisor contends that EPADU's focus should be as a thinktank, rather than as a policy implementation unit.

Although it is generally regarded as intellectually honest, there continues to be a perception among some in the private sector that EPADU is somewhat constrained in its recommendations by its proximity to the government. As noted in the recent ANEPP evaluation, similar constraints have plagued policy units in other countries. For example, as previously reported, the Grain Exporters Association has been frustrated by EPADU's inattention to constraints it faces.

President's Economic Council or Presidents Office

Prior to the idea of restructuring the UEPC and the discussion of the form of that restructuring, some private sector representatives advocated that to be an effective agent of change, an export policy and implementation unit had to be placed in the President's Office or report to the President's Economic Council (PEC). The feeling was that, large or small, changes would not be implemented if front-line agencies failed to receive a strong signal from the highest level of the government.

This option was strongly rejected by our interviewees with the single exception of a member of the President's office itself. There is now a belief that that signal can come from outside the President's office, provided the President continues to strongly advocate an export oriented economy. Moreover, some individuals contend that placement in the President's office or on the PEC would only perpetuate structural irregularities for the export sector and that other more pressing national concerns would marginalize export policy, implementation, and incentive issues. Lastly, there were questions about the capacity of these offices to undertake additional responsibilities, especially activities of this nature.

"New" UEPC

Originally, the UEPC was created as the government's export promotion arm, under the Ministry of Trade and Industry. The original UEPC was regarded by many as ineffective, in part, due to a lack of funds and personnel. Moreover, a lack of direction, particularly from the private sector, made the first incarnation of the UEPC nearly irrelevant in Uganda's push to increase non-traditional exports.

As it is nearly impossible to rehabilitate a failed organization, several new organizational structures for the UEPC have been proposed. At a recent workshop in Kampala open to public and private sectors, a general agreement on one of two forms was reached -- a revised public statutory body or private body with public sector participation. (The two options share many common attributes, but with a few important distinctions. The paper titled "Design of an Export Promotion Services Organization for Uganda" discusses these options in greater detail.)

Like EPADU and the UIA, a newly restructured UEPC will have links with important ministries, but will have greater autonomy to establish its agenda and the financial flexibility to recruit highly qualified personnel. The prospects of locating an export policy and implementation unit within such a restructured UEPC met with a large degree of approval from those in both the private and public sectors. One customs official saw it as an "independent and interdependent" body that he could envision working with productively .

Private exporters generally like this option because they readily admit that they are not yet ready to effectively analyze and clearly advocate the adoption of sound export policy, regulation, and incentives. Yet, a mixed-body UEPC need not close the door on a private exporters association. Rather, it could serve a transitional role through the life of ANEPP's amendment extension, later to become a private export association. (There are those who support such an evolution, arguing that private associations should have the capacity to analyze and advocate their own agenda, e.g., the UMA in Uganda and many other well developed business associations around the world.)

There is precedence in Uganda for the potential effectiveness of an independent body with a mixed board. The UIA has successfully used its autonomous status and public/private board to make significant changes in Uganda's investment environment.

Representatives of the Chamber of Commerce also expressed the view that a new UEPC could play an effective role in analyzing and advocating export policy and incentives, and that the organization could productively work with various ministries as well as GOU agencies such as the URA. Perhaps surprisingly, even well placed individuals in both the Ministry of Finance and Ministry of Trade expressed the view that a newly restructured UEPC, with the attributes described above -- in particular a mixed board, could be an engine for change.

The ability to work across ministries and vertically within any particular ministry is an important attribute. For example, the design and implementation of an export policy framework would involve several ministries, certain departments within the ministries, and private sector participants.

Other Options

Numerous other possible institutions were considered, but all were thought to have certain deficiencies that would be difficult to change, such as an inappropriate focus, close ties to a specific constituency, overly broad macroeconomic orientation, poorly structured, or insufficiently linked to the GOU for implementation purposes, etc.

- Uganda Manufacturers Association: Revived in 1988, the UMA represents the interest of industry, working for promotion and development of a modern manufacturing sector. It provides various services to its members including market research, identification of trade opportunities, contacts with potential foreign investors, and assistance in overseas fairs and exhibitions. The UMA, which focuses on issues affecting local manufacturers, has an active internal policy unit.

- Uganda Think Tank: Recently established private entity with assistance from outside foundations and a broad based agenda.

- Economic Policy Research Center: This is a new, independent group with a broad-based agenda, looking for a narrow focus. It reportedly receives funds from the World Bank and the African Capacity Building Foundation.

- National Chamber of Commerce and Industry: Recently reactivated, the Chamber primarily represents traders.

Lastly, it should be mentioned that the option of creating a new institution was rejected by the consultants. As noted previously, people feel that it is time to move forward on export policy and implementation, and the creation of a new institution would further delay such movement.

Institutional Recommendations

A consensus is emerging for locating a policy analysis and implementation unit under an amended ANEPP in the newly restructured UEPC. The new UEPC -- as presently envisaged -- will be restructured to meet most of the critical success factors identified above.

While the consensus was that ANEPP's policy function should reside in the new UEPC, it was not unanimous. Interestingly though, even those who suggested one structure or another quite often came around to saying that a unit in the new UEPC could be effective.

Still, there are those who argue that one organization can not effectively carry out export policy analysis, its implementation, <u>and</u> export promotion activities.[6] That one of the activities will be marginalized. Within a ministry with many different agenda and constituents this may well be true, but in an organization with one objective -- to stimulate exports of existing and new firms by simplifying and improving transparency of export procedures and providing real export incentives -- this concern is less relevant. In fact, the consultants view these three activities as closely related and mutually reinforcing.

In addition, others argue that both the private and public sectors need the capacity to analyze and advocate particular positions. Certainly, where both sectors have the ability to intelligently and clearly present differing initiatives, a creative tension emerges that leads to the adoption of policy after full consideration of options. Regrettably, time and funds are such that splitting them between two or three institutions is not feasible.

As AID's comparative strength lies more with facilitating the private sector, and given the desire to move forward and general acceptance of a new UEPC role, it is recommended that EPADU's export policy and implementation function be moved to the new UEPC. The President's office could be kept centrally involved by having representation on the new UEPC Board.

This is not to say that no institutional obstacles remain. On-going concerns remain regarding structure and financing. First, the final structure of the new UEPC has not been agreed to. One of those responsible for the study on restructuring the UEPC noted that it could occur in as little as three months. This estimate is likely to be overly optimistic. Amendments will have to be made to the UEPC Act which will be difficult with elections drawing near.

The difficulty of the restructuring envisaged is illustrated by reviewing a few of the structural elements identified as necessary to rehabilitate and energize a new UEPC:

- Sufficient level of autonomy vis-à-vis the GOU, but with significant support and participation from it;

[6] As previously noted, the consultants feel that negotiation and management of PTA, GATT, and other international trade agreements should remain within the MTI.

- Strong support and participation from the private sector;

- A strong, independent board of directors with important public and private sector representation;

- Adequate funding;

- Strong leadership, with well-trained, highly motivated, and specialized staff;

- Adoption of sound objectives, a clear delineation of functions, and a focused action plan.

Moreover, there remains an overall financing problem. USAID's support would only be for a particular aspect of the new UEPC -- the export policy analysis and implementation unit. The GOU has assigned a portion of the revenue earned from its one percent import levy -- which last year totalled over US$4 million -- to the UEPC, Tourism Board, and the Bureau of Standards.

The import levy is likely to generate sufficient funds for export promotion purposes; however, it is not clear that this funding will sufficiently cover the requirements for highly specialized technical assistance for policy analysis and implementation. Last year the "old" UEPC received roughly US$200,000 from the levy, something less than five percent of the amount generated through a 1 percent import cess. (Though this was an improvement over the year before when it received only US$60,000.) In what must be seen as a positive sign of support for a new UEPC, the Economic Advisor in the Ministry of Finance indicated a willingness to use part of the US$7 million, to be released by USAID, after Ministry of Trade and Industry approves and proceeds with a restructured UEPC, for the start-up financing of the new UEPC.

As a result of these and other organizational start-up issues, e.g., the complete autonomy of the board of directors for the new UEPC, it is recommended that USAID delay transferring EPADU functions to the new UEPC until such a time that it is satisfied that the new UEPC can undertake these functions. Until then, EPADU would continue its export policy work, but perhaps with more of an implementation focus, filling the vacuum until the new UEPC becomes operational.

Support of the Agenda

The 1990 ANEPP evaluation noted that policy conditionality can be an important element in an effective reform program. This is particularly true when that policy reform effort focuses on macroeconomic constraints. As the constraints fall to lower operating levels in the bureaucracy, a different mix of conditionality and technical assistance may be called for.

Use of Conditionalities

The October 1993 ANEPP evaluation noted that "the piggy-backing of conditionalities with the structural adjustment program increased their chances of success, although this strategy necessarily forced USAID into a secondary role vis-a-vis the Bank." With the Bank's apparent withdrawal of support for the proposed Export Promotion and Development Project, which was to assist the new UEPC, USAID's potential leverage within the new UEPC has markedly increased.

Unlike EPADU, which is a semi-autonomous attachment to the Ministry of Finance, the new UEPC will likely be a highly autonomous organization with direct linkages, through its board, into several important ministries. Its level of influence within these ministries could be enhanced if significant non-project assistance were available to the ministries as a result of successfully tackling, in cooperation with the new UEPC, specific export policy implementation constraints or incentive issues.

There are a number of possible conditions precedent which could be appropriate. As discussed above, despite significant improvement in the macroeconomic policy, numerous critical second-tier policy and implementation constraints remain that are harmful to the development of non-traditional exports. These include:

- Development of a working duty drawback scheme. (Time frame: 12 to 24 months.)

- Analysis and adoption of incentives that put exports on an equal footing with import substitution endeavors and neighboring country support for their exports, e.g., adoption of performance based incentives available to both partial and full exporters; etc. (Time frame: 6 months for the analysis, 12 to 24 months for adoption of specific incentives.)

- Streamlining of customs operations, e.g., review of SGS; removal of import/export certification. (Time frame: 12 months for the examples given here, possibly until the end of project life for others.)

- The design and adoption of workable, exporter friendly export finance schemes. (Time frame: 6 months for the design, 12-24 months for the effective initiation of the schemes developed.)

The question then becomes how much non-project assistance is necessary to attract the GOU's attention. Though not clear, it is unlikely that the amended ANEPP will have sufficient NPA funds to have an impact on important, but perhaps controversial, export policy implementation. In short, there may not be any meaningful conditionalities that are within an amended ANEPP's financial reach.

However, as a duty drawback will initially cost the GOU tariff revenue, a combination of NPA and technical assistance could spur the government to act on this initiative. The other options do not seem appropriate for NPA. NPA should be used to encourage the government to do things it wants but would initially suffer from. None of the other options fit that category.

Technical Assistance

While the export development side of EPADU enjoyed access to specialized expertise -- hands-on assistance in identifying opportunities and producing non-traditional exports -- nothing similar was in place for policy and regulatory concerns. The export development advisor of ANEPP is widely acknowledged as having played a critical role in the development of NTEs. A lack of a similar arrangement on the export policy side of EPADU, until recently, is felt to have contributed, at least in part, to EPADU's loss of direction on policy issues following its initial success.

An institutional contract will be essential under an amended ANEPP. At least one, and possibly two, long-term advisors will be required to effectively implement an export policy, regulatory, and incentives program through a new UEPC. One advisor would have overall responsibility and work with the new UEPC's trade policy and implementation unit. The second advisor would be necessary should USAID choose to address the need for functioning export finance schemes (pre- and post-shipment, refinance, guarantee, and insurance).

Besides the one or two long-term advisors, extensive and highly specialized short-term technical assistance will be required to tackle specific implementation issues previously identified, e.g., export incentives, duty drawback/exemption, customs procedures, etc. A good deal of freedom though needs to be allowed in the budgeting of short-term technical assistance to give the project the flexibility to provide expertise as desired by the new UEPC to address unforeseen problems identified by its private sector participants.

There are two studies that should be completed early as these will identify some of the technical assistance required. The first study is an analysis of export incentives. Related to this, assistance should be provided for the review and recommendation of what type of duty drawback/exemption scheme would best be suited to Uganda.

Another key task will be to carry out an analysis of current second-tier policies, regulations, and rules; and their effects on exports. This could be done as a single umbrella study with a wide variety of experts or through a number of well-defined and highly focused studies on implementation issues such as import/export procedures, container depot management, air freight handling service, the land allocation system, and examination of utility services. The output of this review will be an agenda for action that will put an investment in Ugandan exports on an equal footing with domestic import substitution industries and competing neighboring countries exports. Together, these analyses will also serve as a useful baseline survey of impediments against which to evaluate project progress.

Short-term Technical Assistance

Short-term technical assistance assignments could include the following:

- Customs expertise to assist with duty drawback/exemption scheme;
- Management information systems development and training;
- Customs expertise on simplification and acceleration of import/export procedures;
- A specialist to prepare recommendations on the coordination and sharing of database information among government entities and private sector associations on export-related data;
- Assistance to help rationalize container depot management in order to reduce container delays within the depot from as much as seven days to 24 hours;
- Specialists to assist with the development of effective and efficient export financing schemes.

Anticipated Outputs

Among some of the benefits to accrue as a result of this aspect of an amended ANEPP are:

- Creation of competitive export incentives;
- Creation of an autonomous export policy and implementation unit;
- Well trained export policy analysis and implementation staff;

- Improvement in the operation of GOU policies designed to aid exporters but currently resulting in indirect tariffs and an anti-export bias;

- Functioning export finance schemes;

- Increased exports;

- Improved government services to exporters;

- A functioning mechanism for dialogue between the private and public sectors on matters of trade policy and regulation.

Investment Promotion

Overview of the UIA

The Uganda Investment Authority is a statutory body established under the 1991 Investment Code. The organization is led by a Board of Directors but is responsible to the Ministry of Finance and Economic Planning. The UIA -- despite its linkage to the Ministry -- has had a high level of autonomy. The Board of Directors is active and has a significant level of private sector representation. The Authority is outside of the civil service and has been able to hire and retain highly-motivated, quality staff by offering salaries competitive with those in the private sector.

Mission

The UIA's stated Mission "is to make a significant contribution to Uganda's economic development in stimulating investments, promoting exports, and creating sustainable employment throughout all regions."[1] In pursuit of this mission, the UIA has four guiding principles:

- "To achieve a level of performance at least equal to the best investment agencies in the world.
- "Operate on the highest standards of honesty, dedication and integrity.
- "Promote the best return of investment for the Government and people of Uganda.
- "Recognize that the 'Client Investor' is the most important person in our business and will be provided with the highest quality levels of service and assistance."

Envisaged Activities

In order to implement its mission, the UIA has identified a series of activities to be undertaken. These include:

- "Provide serviced land to investors.
- "Influence improvements in developing a conducive investment climate by carefully planning and scheduling amendments to the Code and by instilling faster response to investor needs by partner agencies.

[1] The UIA's mission statement, guiding principles and activities are quoted from the UIA's Budget Framework for Fiscal Years 1994/5-7.

- "Develop an institution which entails design and implementation of internal organizational and personnel systems, continuation of major staff training programs, and implementation of an integrated management information system.

- "Market and promote investments based upon careful country, sector and company targeting.

- "Develop local enterprise capacity."

Investment Figures

As of November 30, 1993, the UIA had received nearly 730 project proposals of which 588 had been approved. Site visits by UIA staff to 209 established projects found that over US$170 million in investment has occurred (in June 1993 it was estimated that approximately 3,700 jobs had been created); these figures compare well to other investment programs in Africa. Of the 209 implemented projects, 33 have invested more than US$1 million and together account for US$142 million of the existing investment. The largest number of implemented projects is found in the manufacturing sector at 132. Actual investment in manufacturing is US$129 million and this sector accounts for 21 of the 33 projects with investments over US$1 million.

UIA Strengths

Apart from the high investment levels already achieved, the UIA has demonstrated a number of important strengths. These include:

- a high level of autonomy and active Board of Directors with significant private sector input;

- a hard-working and dedicated staff;

- an ability to handle a much larger number of investors than originally anticipated;

- a relatively efficient approval process;

- well conceived organizational plans;

- effective institutional building in a short amount of time;

- realization that investor facilitation services are the most important first phase promotional activity for Uganda;

- unlike many African investment promotion offices, vague overseas image building campaigns have been kept to a minimum.

Criticism of the UIA

Despite its overall strong performance, the UIA has received criticism from many observers. In the opinion of the consultants, much of the criticism has been unfair. First of all, the UIA is still a very young organization; despite its youth, the organization has accomplished much in a short period of time and is acting much more effectively than its counterparts in most of Africa.

Criticism has been lodged at the size of the UIA. While the staff of the UIA is somewhat larger than expected, the workload expected was far lower than the reality. The original project document expected only nine applications per month but the UIA has received three times that many on average.

The most common criticism of the UIA though is the comment that it is more of a regulatory than a promotional institution. The largest portion of work undertaken at the UIA is in investment facilitation. Assisting investors through Uganda's bureaucratic maze should not be confused with regulation.

Related to this is the criticism that the UIA has undertaken relatively limited overseas promotional efforts. In fact, there has been little money available to undertake overseas promotion and follow-up visits. In any case, staff resources were already fully utilized on investor services and overseas promotion would have meant neglect of current investors.

Areas for Improvement

That being said, there are areas which can be further improved, and UIA officials are in the process of addressing many of them. These areas include:

- better targeting of promotional efforts;
- lack of short and inexpensive promotional materials;
- use of lower cost, but better focused media outlets in advertising campaigns;
- resolving problems with partner agencies on issues such as access to land, utilities, and work permits;
- lack of understanding within Uganda of what the UIA does and what it has accomplished.

Investment Policy

Appropriateness

Relevance to Exporters

Much of the new investment that occurs in Uganda is under the 1991 Investment Code. As in Namibia, Zambia, and Ghana, Uganda offers no specialized export incentives regime. Instead, these countries have investment codes which are applicable to a wide range of activities, including manufacturing, services, tourism, and agricultural investments; mining activities, however, are governed by separate investment codes and incentives. Within these investment codes, incentives or other advantages are granted equally to a diverse number of activities.

Under most investment codes, incentives are made available to both foreign and local investors, new firms or expansions of existing ones, and for either export or import-substitution firms. Typically, investment codes are considered a "sloppy" policy in that they are not performance based. If a project meets the minimum investment level, it is granted the benefits offered under the code. As a result, some countries can actually offer incentives to import-substitution projects that may have an overall negative impact on the economy as a whole. From an economic perspective, consumers and taxpayers can be forced to subsidize high-cost, low-value-added activities. Consequently, there is a growing realization that performance-based incentives such as those offered under an export policy regime are fairer, more rational, and more cost-effective.

While Uganda's Investment Code is clearly superior to what existed prior to its enactment, it does not compare well with many regional export programs. The three to five year tax holiday and duty-free importation of equipment provisions are important, but they are inferior to benefits offered elsewhere.

Regional Competition

A wide variety of export incentives and export promotion mechanisms are used -- with varying degrees of success -- within Subsaharan Africa. They range from duty drawback/exemption and bonded warehouse programs -- whose single purpose is to enable exporters to obtain inputs free of duty -- to export processing zone programs which introduce a comprehensive policy package comprised of economic incentives and a streamlined investment approval and regulatory environment.

The primary export incentives within the region include:

- duty drawback/exemption schemes;

- manufacturing-under-bond;
- export processing zones (EPZ);
- partial export regimes (proportional reductions in corporate tax based on level of exports);
- foreign exchange export retention schemes;
- preferential investment and export financing;
- direct export sales subsidies;
- preferential utility and transport costs;
- investment facilitation.

Given the high tariff regimes and strong dependence of regional governments on Customs revenue, most countries offer some type of duty drawback or exemption scheme to encourage exporters. As in Uganda, however, most of these programs have been ineffective due to excessive bureaucracy and long delays in receiving refunds. Dysfunctional drawback programs exist in Zambia, Botswana, and Zimbabwe; only the drawback program in Mauritius appears to be working effectively. As a result of dissatisfaction with its drawback program, the government of Kenya has established a duty/VAT exemption scheme that does not require exporters to pay duties up-front and subsequently wait long periods of time for refunds. At present, 150 firms are registered under the duty exemption program in Kenya. By comparison, only three firms in Uganda have requested duty drawbacks since the Budget Speech.

EPZ programs in competitor countries offer a wider range of incentives than Uganda. The Kenyan EPZ program offers a typical package including a ten-year tax holiday (followed by a 25 percent flat tax) as well as exemption from duties and taxes on imported raw materials, components and capital equipment. In addition to the tax benefits, the EPZ scheme offers relatively quick investment approvals, improved Customs procedures, and an accelerated work permit registration system. EPZ programs have also been established in Togo, Cameroon, Madagascar, and Burundi. In all but Kenya, firms have the flexibility to establish operations throughout the country.

Uganda's Competitiveness

Of the most common export incentives listed above, Uganda can said to be competitive only in offering investor facilitation services and easy access to foreign exchange (and as such Uganda has surpassed countries offering export retention schemes). Uganda's comparative policy disadvantages include:

- from the tax perspective, Uganda's three to five year tax holiday is less than those offered under EPZ programs. Moreover, Uganda's holiday is too short to be effective; few firms make profits in the first three years and the Ugandan Investment Code does not allow for losses to be carried forward once the tax holiday has ended. Even in Mauritius -- which no longer offers a tax holiday to exporters -- its 15 percent flat rate of tax is far superior to Uganda's corporate tax rate upon termination of the tax holiday.

- Uganda's duty drawback program is non-functioning and while bonded facilities do exist in Uganda there is not a manufacturing-under-bond program per se. The URA has stated that it is not yet capable of undertaking and monitoring this type of program.

- Uganda offers no partial export regime and there are no policies in place to encourage indirect exports.

- the export finance program administered by the Bank of Uganda has been subject to excessive delays and has not performed to satisfaction for most exporters.

- while the UIA has put great emphasis on investor facilitation services, severe delays are still encountered due to the intransigence of partner agencies. Although the UIA is generally more effective in facilitating investments than its counterparts in the region, the private EPZ/industrial estate in Kenya offers better Customs procedures, quicker access to serviced industrial land, and easier work permit approvals.

Level of Transparency

As it is currently written, the Investment Code is less transparent than it should be. Investments processed through the UIA undergo two distinct stages. First, an application is submitted for an investment license; second, after the necessary capital investment is made, an application can be submitted for incentives. In most African nations, foreign investors would refuse to proceed without first obtaining the incentives, however, the fairness and trustworthiness of the UIA is demonstrated by the fact that investors are willing to assume this risk.

Moreover, the Investment Code is somewhat ambiguous in which projects can receive incentives. Projects must meet at least three out of six criteria:

- generation or saving of foreign exchange;

- utilization of local raw materials, supplies, and services;
- introduction of advanced technology;
- creation of employment;
- contribution to locally or regionally balanced social economic development;
- any other activities that the UIA considers relevant.

Obviously, the final category is highly ambiguous and subject to interpretation. The lack of transparency, however, has not been a problem as the UIA staff has apparently not abused this provision.

It should be noted that the Ministry of Finance does have the right to grant special duty exemptions to industries and even individual firms. One example is that the paper packaging products commonly utilized by fish and horticultural exporters are allowed to be imported duty-free. While there is no evidence that this authority is being abused, the potential for problems does exist. It would be preferable if regular exporters were allowed to import duty-free all the materials, components, and equipment needed under a comprehensive duty exemption scheme, rather than to have a specific exemption for various products granted on a case-by-case basis.

Cost/Benefit of Export Incentives

A survey on the effectiveness of investment incentives,[2] found that incentives were effective in influencing decisions only for certain types of projects. Incentives such as tax holidays, for example, were found to have a negligible impact on projects designed to serve a country's local market. For these projects, size of the domestic market and level of tariff protection were much more important. In contrast, tax incentives were found to be an important aspect in the site selection of export-oriented investment.

The cost of export incentives is typically overestimated by revenue officials. The cost of incentives are less than generally feared because much of the first wave of non-traditional exports is due to foreign investment which would not have occurred without tax benefits. In this sense, NTE activity is incremental and does not represent a loss of revenue. Duty drawback/exemption programs can result in a loss of Customs revenue but this is a cost accepted as normal in successful exporting countries as it is also incremental to a large degree; without access to inputs at international prices it can be extremely difficult to compete on external markets. In Uganda, the existence of a non-

[2] "Marketing a Country to Foreign Investors: Applying Existing Research to Subsaharan Africa," Louis T. Wells and Alvin G. Wint, 1989.

functioning duty drawback program protects GOU revenue in the short-term but imposes a more subtle political cost through frustration caused to exporters -- the very people the GOU claims to need and support.

Other incentives are largely regulatory in nature and their implementation would have little cost to the government. Simplifying Customs documents for exporters and easing work permit access are important, for instance, but have little revenue impact.

Fostering certain private sector activities can be extremely helpful in improving the export environment but also have relatively little cost to a government. A working export finance scheme or private industrial estate, for example, should inflict little cost as they are conducted on a commercial basis in many countries.

In contrast, the present system of awarding incentives to non-export firms can have significant costs. Under the current Investment Code, tax holidays can be received by import-substitution firms in an environment which already has an import bias. Though beyond the scope of this analysis, the cost of the current incentives is likely to be well above those that would emerge from a sound export policy framework.

Identification of Investment Promotion Agenda Objectives

Existing Constraints

In addition to the lack of export incentives described above, a number of policy and regulatory constraints remain for exporters. These include:

- high minimum investment levels to qualify for incentives. This provision also requires that the UIA undertake monitoring activities which pose further demands on UIA staff.

- to qualify for incentives, projects must meet at least three out of six criteria. It would be preferable if a negative list of activities which are not eligible for incentives was created and move towards a more simple registration process.

- restrictions on foreign land ownership.

- difficulties in accessing land and a non-transparent land allocation system.

- hook-up to utilities remains a cumbersome and expensive process.

- problems remain in import and export procedures and delays in receiving shipments from the inland container depot range from 3-7 days. While this is an improvement over past delays, it is still unacceptably high, particularly given the long delays typical in shipping containers from Mombasa to Uganda.

- the need for import and export certificates as well as SGS valuation is diminished with the GOU's liberal foreign exchange policy; the termination of SGS' monopoly on valuation has not occurred as outlined in the Budget Speech.

- uncertainty regarding the allowance of private sector telecommunications and electricity generation.

- absence of incentives for export services or indirect exporters;

- firms under the Investment Code are theoretically tied to loan limits as determined by the Bank of Uganda after consultation with the UIA;

- Uganda Airways enjoys a handling monopoly on air freight and there are indications that landing fees and handling charges are higher than those in competitor nations.

- provisions on the transfer of technology in the Investment Code remain onerous.

Uganda's restrictions on land ownership by foreigners is a factor that impedes foreign investment in export-oriented agricultural production. While restrictions on foreign ownership of land are common in African nations, Asian and Central American countries with strong agricultural exports have been more open. Malaysia, for example, allows foreign investors to acquire land, subject to the approval of states. Thailand also allows foreign investors to own land to carry out certain activities. In contrast in Uganda, approval must be received from the Minister of Finance. This issue is critical, as foreign investors often provide the first wave of successful non-traditional agricultural exports. Closer to Uganda, the success of Zambia in attracting agricultural investment is closely tied to the fact that it is more willing to allow foreigners to hold agricultural properties.

While the obtaining of work permits has eased, some investors still complain of obstacles in getting permission to bring in expatriate employees. One large investor in Uganda noted that the failure to obtain a permit for one highly qualified individual meant the loss of 200 direct jobs in rural Uganda. Restrictions on expatriate staff are generally short-sighted as there is ample incentive to train and use local staff as soon as possible. This is because expatriate staff are expensive, and recruitment is often difficult. Nonetheless, expatriate staff are frequently vital in the first phase of export operations as maintaining high levels of quality are an over-riding concern. Consequently, the GOU should consider moving to a system that links the number of expatriates to the desired characteristics of the investment. In Togo and Cameroon for example, export firms are allowed to have 20 percent of the staff be expatriate.

Difficulties in accessing land and utilities could be partly resolved through the creation of an industrial estate. The UIA has land available for this purpose and is talking with potential private sector developers. In many countries, industrial estates/export processing zones have special Customs procedures which could address the unnecessary delays currently encountered. The provision of private telecommunications and electric service in industrial estates is also becoming increasingly common, particularly in countries with high telecommunications costs or unreliable electric service.

Investment Promotion

The UIA hopes to begin more intensive international promotional activities in the coming years and an investment promotion study funded by the World Bank is expected to be conducted over the next few months. The UIA has slowly been developing its promotional strategy in terms of industry sectors and source of investment. This targeting is critical as the less developed the country, the more difficult it is to attract a wide range of industries (the relatively wide range of businesses attracted to date is more a result of the Ugandan economy's strong import bias and low economic base following years of turmoil).

Given the heavy workload already experienced by the staff -- as well as the fact that the UIA is not expecting to increase its number of employees -- the shift to more intensive promotional efforts will be difficult. However, the UIA seems relatively confident that it can become more efficient through the establishment of its management information system and computerization efforts. Moreover, improvements in relationships with the Uganda Revenue Authority and other partner agencies will free staff time to some degree. Nonetheless, the overseas promotional activities currently envisaged are so extensive that even UIA officials are concerned about the UIA's ability to undertake them effectively without neglecting other areas of its mandate.

As presented in its Budget Framework, the UIA proposes to undertake advertising campaigns on radio, tv, as well as in printed publications. The UIA may want to consider more focused media outlets; Caribbean Basin promotion organizations typically advertise in sector specific media such as Bobbin (apparel) and Grower & Packer (agribusiness) rather than radio, tv, or popular news magazines. Placing advertisements in specialized trade journals has proven to be more cost-effective.

USAID has recently agreed to fund an overseas promotional representative for the UIA in Germany. In order to maximize the effectiveness of the UIA's first overseas representative, it is recommended that prior to commencement, the following tasks should be undertaken:

- preparation of an operational plan for the office complete with objectives, responsibilities and strategies;
- establishment of a budget to be followed;
- delineation of line responsibilities and reporting mechanisms to the UIA in Kampala.

Facilitation Services

It is likely that one of the UIA's most critical forms of promotion will continue to be pre- and post-investment services. This is critical for a number of reasons:

- investor facilitation is less costly than expensive overseas promotional efforts and usually requires only staff time and minimal other costs. This contrasts with the normally high and somewhat speculative costs associated with image building and investment generation activities.
- the highest potential investors are those that have submitted applications. At present, a relatively small percentage of the investment stated in project applications has been realized, and it is important that this number be increased over time. One common reason for lower than hoped realization rates in other countries is due to difficult bureaucracies.
- satisfied operating investors are the best promoters a country can have.

Singapore, Thailand, Malaysia, and Ireland have consistently emphasized the investor service and facilitation as part of their promotional programs. Similarly, promotional bodies in the Philippines and Indonesia are shifting their attention to facilitating investors. The consultants strongly believe that the UIA should not de-emphasize this strong element of their program in order to undertake more overseas investment promotion. It may be preferable for the UIA to undertake a heavy overseas investment promotion schedule only after export incentives are in place and investment facilitation constraints are further improved.

Facilitation versus Regulation

While the UIA is in theory a one-stop shop, it lacks the power to unilaterally make decisions on critical issues such as access to land, utilities, and work permits. The UIA does try and facilitate secondary approvals and licenses and this type of investment facilitation is the main function of the UIA's largest department -- the Operations and Monitoring Division. In the 1993 Budget Speech, the Minister of Finance stated that all existing laws in conflict with the UIA's one-stop shop would be amended this year. While the UIA notes that improvements have been made, numerous obstacles remain.

Some observers have commented that the UIA has assumed too large of a regulatory role. However, in the issuance of investment licenses and incentives, the various steps of the application process must be done within specified time periods and the UIA commonly beats these benchmarks. Applications are typically approved within three weeks and many are issued within two weeks. Applications are not screened for viability; projects are only examined to determine whether they would have a negative impact on worker safety or the environment.

The UIA has improved facilitation efforts through two structural mechanisms. First, critical partner agencies such as the Uganda Revenue Authority are represented on the Board of Directors in an effort to increase the understanding of obstacles faced by investors. Second, senior level "Desk Officers" at partner agencies are responsible for assisting the UIA in serving investors.

One possible sign of continued bureaucratic difficulties is the gap between actual and intended investment. Approved projects represent over US$1 billion in investment and the UIA estimates actual investment at approximately US$170 million. There are a number of factors which account for the gap between intended and actual investment. UIA officials note that project lead times in Uganda are frequently longer than expected. Many projects are phased, with relatively small initial investments. Part of the gap can also be attributed to the minimum investment levels required to obtain incentives. This provision could cause some firms to overstate their intended investment levels. In many countries, larger projects are often given more favorable treatment in obtaining land, work permits, etc.

A more troubling possibility is that some firms have decided not to proceed because of bureaucratic difficulties or political uncertainties. More than 150 of the 588 approved projects are classified as "not yet implemented." Realization rates in the 60 to 70 percent range are a typical target of promotion agencies. Unexpected changes in market demand, home office constraints, or difficulty in obtaining finance make it unlikely for developing countries to achieve higher realization rates. In fact, investors in many countries are known to apply for licenses and incentives before meeting with banking officials. These investors believe that investment approval can be viewed as a "seal of approval." In some countries the actual realization rate of approved investments is lower than 20 percent (i.e. Pakistan at 14 percent), while locations like Singapore claim realization rates of over 80 percent. At this juncture, it is premature to determine Uganda's true realization rate.

Investment Screening and Monitoring

On previous visits, UIA advisors have discussed their preference for a more stringent screening process. The rationale for screening is to protect the country from harmful or dubious projects or from wasting incentives on projects that would yield little positive impact. Experience in most countries shows that harmful projects have about the same chance of passing through the screen as beneficial ones.[3] Given the costs of screening and its poor results, most countries are moving away from screening to simple registration processes.

Open economies lead to fewer harmful projects as there are fewer distortions to take advantage of. Consequently, it is preferable to reform trade policy than to improve the screening process. As Wells and Wint observe:

> "At some point in the liberalization process, the harm done to the economy by admitting all investors, including the few harmful ones, is less than the advantages foregone from an obstructive screening function that repels attractive investors."

One area of concern to some is the UIA's increasing monitoring efforts. In the opinion of the consultants, this activity could be better characterized as post-investment services as one of the primary objectives of this activity is to identify existing constraints for investors.

The undertaking of serious formal monitoring efforts is typically a reaction to political opposition clamoring for information on the benefits of incoming investment and/or the cost-effectiveness of the incentives

[3]"Facilitating Foreign Investment," Louis T. Wells and Alvin G. Wint, FIAS, 1991.

offered.[4] In the case of Uganda, it appears as though much of the pressure for this information is coming from Ministry of Finance, IMF, and World Bank officials who oppose the tax incentives offered under the Investment Code.

There is of course a potential conflict between promotion and monitoring, and many promotional agencies fear that monitoring will decrease the effectiveness of their promotional activities. Monitoring of investments in Uganda is made necessary by the fact that minimum investment levels are required to receive incentives. A shift to more performance-based incentives such as export incentives would mean that monitoring would be simpler and handled by Customs rather than the UIA. This would be a more ideal approach.

For Uganda, it would be preferable if the Investment Code was amended to eliminate the need for screening and monitoring and instead formalize the registration system through the introduction of negative lists -- at least for export-oriented firms. Projects which would have potential negative externalities on the environment and worker safety should, of course, be carefully screened.

Support of the Agenda

Financial Support

The UIA was originally created as a condition under SAC I and was to be financed by the World Bank. However, because of unforeseen delays, USAID was asked by the GOU to assume the organization's recurrent expenses. USAID was able to respond to this request through the use of local currency funds and USAID's present commitment to the UIA extends through June 1994. The UIA has already undertaken a detailed Budget Framework for 1994 through 1997. The underlying strategy of the document was "not to replace USAID's core support with another single donor, but instead to seek support for specific programs from several donors..."

World Bank

One of the critical elements of this budget support was to come from the World Bank. Until recently, it was expected that the World Bank would assume the UIA's recurrent expenses in the second half of 1994. However, it is now unlikely that the World Bank will establish the project which was to provide funding to the UIA. For the fiscal year 1994/1995, the World Bank was expected to provide US$917,000; the figure hoped for through 1997 was nearly US$4 million.

ibid.

Donor Support

As a result, the continued activities of the UIA at current levels are in doubt unless greater than originally anticipated funding can be obtained from the GOU, donors, and/or through UIA fees on investors. Apart from USAID and GOU, the European Community (EC), UNDP/UNIDO, and SWEDCORP are listed as potential fund sources for the UIA. Although no formal agreement has yet been signed, UIA officials are expecting US$300,000 in the very near term from the EC for its 1993/94 budget and are confident that the EC is committed to financing activities worth nearly US$1.3 million through 1996 under the EC's National Implementation Project.

Increasing Sustainability

It is recommended that USAID use this opportunity to diversify and strengthen the UIA's ability to become more financially self-sustainable. While it is impossible for investment promotion agencies to be self-sustaining, UIA officials recognize the need to create a more stable budgetary process. One example of this is the UIA's recent acquisition of its own building which shall be known as the "Investment House." The UIA's Budget Framework notes that the "rental income from the ground floor commercial tenants will generate the first significant internal revenues" which will contribute to meeting overhead costs. At present, it is estimated that the new building will provide the UIA with US$100,000-150,000 per year in new revenue. Moreover, the demand for investor services is so great that the UIA has begun to consider charging fees for "some or all of these services."

The institution of user fees should be considered carefully as they are typically disliked by investors. However, a one-time application fee is fairly standard internationally and is generally well accepted by investors. Establishing a graduated or flat application fee of US$500 or less for those requesting incentives would likely have little or no impact on new investment and could provide a significant new source of revenue.

The one percent import cess that is shared by the UEPC, Tourism Board, and National Bureau of Standards should also include the UIA. Senior MFEP and MTI officials consider this a sound approach and the UIA is reportedly drafting a concept paper on this idea for presentation to the GOU. Given the present revenue collected from the cess, and the expected needs of the three organizations, there should be sufficient funds available to cover a significant portion of the UIA's recurrent costs.

Program Activities

The UIA's proposed Budget Framework is a comprehensive document that outlines in detail UIA's needs to further improve operations. Areas highlighted for improvement include:

- there is not a good understanding of what the UIA does and what it has accomplished. Consequently, the

UIA has envisaged a public relations campaign in local media outlets. The UIA is expecting that this will be funded by the European Community.

- the UIA is hoping to better target its overseas promotional efforts for sources of investment. Activities funded by the European Community, for example, are "designed to identify companies in a limited number of target markets with already established business and investment interests in East Africa." The UNDP/UNIDO is expected to fund two regional investment promotion seminars; this is critical as much of the UIA's investment to date has come from within East Africa.

- further targeting of sectors is also underway. Ten sector profiles are expected to be funded from the EC as well as SWEDCORP; eight sector profiles from the UNDP/UNIDO are also expected to be undertaken. US$84,000 is expected from the UNDP/UNIDO for updating previous industry feasibility studies and the printing of summaries for potential investors.[5]

- there was some criticism of the UIA for its follow-up efforts on the investment conferences held in London and the Hague, but effective follow-up was constrained by lack of funds to conduct these second phase activities. Budgeting assistance for future follow-up missions to Europe is expected to be covered by the EC.

- a computer system with an investor tracking mechanism and a business operating conditions database is to be implemented with USAID and FIAS/MIGA assistance. This system is hoped to make the UIA staff more efficient and free time for its envisaged promotion activities.

- due to concerns about the environmental impact of projects, UIA is hoping to establish with USAID funds an environmental protection program with training to UIA staff responsible for implementing it.

- greater than expected demand and lack of sufficient funds have meant that some promotional materials

[5] Experience elsewhere demonstrates that sector profiles are preferable to feasibility studies as the former are less costly and more useful to investors who generally prefer to conduct their own feasibility studies.

have been in short supply, and promotional materials are hoped to be funded from the EC and UNDP/UNIDO. The establishment of an Information Center within the UIA (with EC funds) for the design and production of in-house promotional materials using desk-top publishing would allow the UIA to reduce its promotional costs in the medium-term. It would also allow the UIA to change promotional materials more easily when required due to changes in the investment environment.

- training is expected to be provided on investment promotion techniques through overseas study tours by USAID, and technical courses from the EC and UNDP/UNIDO.

World Bank Activities

The UIA had hoped that significant funding would also be forthcoming from the World Bank. As already mentioned, it is now highly unlikely that this assistance will proceed. The World Bank's assistance was expected to include:

- international public relations program;
- promotional and informational materials;
- international investment promotion seminars and workshops;
- design and production of audio-visual presentations;
- investor targeting studies;
- investment promotion techniques;
- follow-up missions to target markets; and,
- an investor support program.

While it might first appear as though there is substantial overlap between many of the activities proposed for donor funding, the UIA notes that they are in fact "distinct in content and emphasis." Moreover, "care has been taken to ensure that there is no overlap or duplication between these programs, which are almost entirely oriented towards different markets." For example, the EC program places major emphasis on the support of national projects -- particularly outside of urban core areas -- as well as on the establishment of joint ventures. It had been hoped that the World Bank would focus on the modernization and expansion of existing firms and on the promotion of foreign investment on natural resource based industries and local produce. UNDP/UNIDO assistance is oriented to sector level studies that have already been conducted.

USAID Role

Given the strong performance of the UIA to date, USAID's longstanding support to the institution, and the importance of investment promotion to Uganda's future economic development, it is recommended that USAID strongly consider funding the activities originally envisaged under the World Bank program. The full extent to which USAID assumes these responsibilities depends on the UIA's ability to secure other funds. If the UIA attains greater financial sustainability through the import cess or investment applications -- which USAID should encourage -- not all of the World Bank activities would have to be assumed. Government support is important for symbolic reasons as well as long-term UIA sustainability. Moreover, GOU funding is likely to be more flexible than donor money which often cannot be used for essential activities such as representational expenses. Lastly, EC and UNDP/UNIDO assistance do not appear to be 100 percent certain, which could expose USAID to some risk. USAID should therefore help the UIA and GOU attain assistance from these organizations.

In terms of possible NPA funding, one option appears to hold great promise. In an effort to make the UIA more financially stable over the long-term, it is recommended that USAID consider offering NPA in exchange for the GOU allocating part of the import cess to the UIA. This action would provide the UIA with a long-term and relatively stable revenue flow. Moreover, this short-term infusion of money by USAID would pave the way for the GOU to assume the responsibility for expenses that have, to date, largely been covered by donors. A further advantage of this approach is that GOU funding would give the UIA a greater level of flexibility in the use of funds than would be possible from money provided by donors.

Possible problems with this approach would be that the GOU could delay transferring funds to the UIA and that USAID would lose some leverage over UIA activities. On balance however, it is felt that the strengths of this proposal far outweigh potential pitfalls.

Linkages Between Export Policy and Investment Promotion

Need for Liaison

The linkage between export policy and investment promotion is strong as investment promotion efforts commonly focus on attracting export-oriented projects. Developing countries with small and relatively poor internal markets realize that export-oriented policies are necessary to generate economic growth. At the same time, however, local firms frequently do not have the skills, capital, or market knowledge to develop export sales. Consequently, most developing countries have had to rely on foreign investment to spur initial export development. To attract foreign investors, a strong export policy framework is essential. The competition for this investment is fierce, as increasing numbers of developing countries have established export policy regimes. In contrast, countries with large protected domestic markets typically have an easier time in gaining foreign investment.

The correlation between investment and export promotion was clearly demonstrated in a survey examining firms' location selection decisions.[1] As with tax holidays, only certain kinds of investment were influenced by investment promotion. Investment promotion activities, for example, had little impact on projects oriented towards domestic markets but had substantial impact on export-oriented projects. This is because for firms interested in a country's domestic market, that market itself is the attraction and promotion is likely to play only a minor role. In contrast, export-oriented firms can choose between a wide range of countries. Consequently, an investment promotion organization is most successful when focused on export-oriented investment, whether for export to world or regional markets.

Methods of Linkages

As discussed in the "Review of the Institutional Structure for Investment and Export Promotion," there has been relatively little coordination of efforts between investment and export promotion organizations to date in Uganda. Recently, however, the three relevant organizations have increased their level of interaction. EPADU for example, is coordinating a USAID-funded study on investment promotion in conjunction with the UIA. Similarly, the Deputy Director

[1]"Marketing a Country to Foreign Investors: Applying Existing Research to Subsaharan Africa," Louis T. Wells and Algin G. Wint, 1989.

of EPADU has been part of a three person team assigned the task of recommending a new structure for the UEPC. In addition, an export committee with the participation of the UIA, UEPC, Ministry of Finance, private sector representatives, and donor officials already exists and meets on a regular basis.

As recommended in the "Design of an Export Promotion Services Organization in Uganda," it will be important for a restructured UEPC to have the Executive Director of the UIA as a Board member. Representation of the UEPC on the UIA's Board of Directors would also be beneficial. Given that this report has recommended that the new UEPC undertake a policy implementation role, difficulties faced by UIA project officers in facilitating investments will be an excellent source of information for the new UEPC in identifying which policy and regulatory bottlenecks need to be addressed. Without good communication and coordination of efforts between the investment and export promotion institutions, an export policy implementation unit will find it much more difficult to fulfill its mandate.

ANNEX A
INTERVIEWS

I. PUBLIC SECTOR

Ministry of Finance
Keith Muhakanizi
Economic Advisor to the Minister

Ministry of Trade and Industry
Hugh Doyle
Trade Policy Advisor

Bidhu Jayal
Trade Policy Advisor

President's Economic Council
Sam Najamia
Economic Advisor

Uganda Revenue Authority
Alan Tyson
Deputy Commissioner Excise and Sales Tax

Export Policy and Development Unit
Nimrod Waniala
Deputy Director

James Cartwright
Non-Traditional Agricultural Exports Advisor

Tuan Nguyen
Policy Advisor

Uganda Export Promotion Council
H.G.K. Nyakoojo
Ag. Executive Secretary

S.O.K. Ojakol
Research Officer

II. PRIVATE SECTOR

Uganda National Chamber of Commerce & Industry
Badiru Bunkedeko
Chairman

George Rujojo
Secretary General

Uganda Manufacturers Association
Sarah Kitakule
Senior Policy Analyst

Reco Industries
Mr. Rwabwogo
Managing Director

Kyagalanyi Coffee
Miranda McLaughlin

Sembule Electronics
David Tomusange
Marketing Manager

Uganda Silk Producers Association
John Ndyabagye
Chairman

Pearl Clearing & Forwarding
W. Mulindwa
Managing Director

Katureebe, Twinomukunzi & Co. Advocates
Charles Twinomukunzi
Partner

INCAFEX/UIA Board of Directors
James Musinguzi

Nile Bank/Technoserve
Robert Clark
David Morris

III. OTHER ORGANIZATIONS

United States Agency for International Development
Gary Bayer
Chief - Agriculture and Natural Resources Office

James Dunn
Agricultural Development Officer

Susan Fine

Robin Phillips
Program Economist

Holly Wise
Private Sector Officer

International Monetary Fund
Robert Sharer

World Bank
Chukwuma Obidegwu
Resident Economist

Uganda Investment Authority
George Rubagumya
Executive Director

Freddie Ruhindi
Assistant General Manager

Patrick Nyaika
Assistant General Manager

UNDP Consultant
Ivan Nyiri