Speech

By

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Advancing Investment Policy Reform in Africa

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Hon. Ministers,
Your Excellencies Ambassadors and High Commissioners,
Development Partners,
Distinguished Ladies and Gentlemen.

I welcome Your Excellencies and delegates to Uganda. I thank you for having accepted to make Uganda the venue for this NEPAD-OECD Africa Investment Initiative meeting whose theme is "**Advancing Investment Policy Reform in Africa**."

Markets, the advancement of investment policy reforms so as to attract more investment to Africa and also how to advance the **NEPAD Agenda of good governance**, are issues of highest importance to Africa.

Uganda adopted the NEPAD Strategy and acceded to the African Peer Review Mechanism (APRM) in 2003. This year, I handed to Professor Adedeji Adebayo, the Chairperson of Eminent Persons, Uganda's country Self-Assessment Report.

This High Level Meeting is quite timely because it will focus on investment and infrastructure – roads, railways, airports, seaports and energy in all its different forms, including power dams. Investment in transport infrastructure is the cornerstone for accelerating Africa's regional integration and is critical for sustainable development in Africa. In turn this will attract private investment across economic sectors by increasing market size, total factor productivity and economies of scale for potential investors.

Road transport forms a central cog in national, regional and international trade. Without effective road infrastructure and coherent coordination of transport infrastructure policies across African borders, Africa's share of world trade may well stagnate at the present 2% of the World Trade.

Poor transport infrastructure renders intra-continental trade far more expensive than external trade. Understandably, intra-continental trade thus accounts for less than 10% of Africa's total external trade, compared to nearly 20% for the Western Hemisphere and over 40% for Asia. Thus the case for investments in transport infrastructure is clear.

Electricity: building a dam in Africa is a war -- you must fight. Everybody fights you when you try to build an electricity dam. There are some 'clowns' called environmentalists. These are just 'clowns', not serious people. How can you talk of environmental protection when in the case of Uganda we are destroying 40,000 billion cubic metres of wood per annum because of fuel; with people using trees to cook! What sort of environmental protection are you talking about, when you stop dams in the name of environmental protection; unless some science I have not heard of has proven that Africans are people who do not need electricity.

These meetings, therefore, should coordinate and harmonize thinking. Anybody who is a friend of Africa must talk of dams – electricity. If you don't do that you '*go to hell*'.

Fortunately, I have got time to study these issues. When I was a student in the 1960s; when I was in the Resistance fighting Idi Amin; and now when I have been in government, I have seen all sorts of confused people. And now my position is very clear, uncompromising, moving forward. So, I am glad to see partners who may wish to share my experience of 43 years. Dams, dams, dams – electricity. The KWh of electricity in Africa is only about 400. But in the United States it 7,700 KWh hours per capita; in the European Union it is 3,000 and above. Here in Africa, South Africa is the only one that has got some little electricity – but even now it is not enough for them, they have power shortage. But if you take the average of the whole of Africa, of 490 KWh per capita; how can you develop?

In September 2008 we attended this 'funny meeting' (UN General Assembly) in New York, supposed to be looking at whether the MDGs will be met and what not, by 2015. So I asked them:

> "*How were the MDGs supposed to be fulfilled without electricity and without transport? Were you supposed to use magic, witchcraft or what*?"

Seriousness, Ladies and Gentlemen.

However, transport costs remain very high throughout Africa, averaging 14% of the value of exports compared to 8.6% for all developing countries (56% for Malawi 52% for Chad, and 48% for Rwanda). These operational costs are directly related to poor road infrastructure. A survey conducted in Kinshasa showed that transportation costs were on average two times greater on unpaved roads than on paved roads, with a significant impact on food prices. Currently, only 27.6% of Africa's 2 million kilometers of roads are paved -- 19% in sub-Saharan Africa, versus 27% in Latin America and 43% in south Asia; hence the urgent need for increased investment in this domain.

Railways

Compared to other continents, Africa is still grossly under-developed when it comes to railway transport. It is somewhat embarrassing that there has been very little addition to the railways rolling stock that was built and left by the colonial powers.

It is really amazing to find that not a single railway project has been implemented in Tropical Africa for the last 50 years except the Chinese-built Dar-es-Salaam-Kapririmposhi-Zambia railway line. That is the only one I can remember. If my memory is not good, this wonderful conference could help me to remember which big railway has been built in Africa in the last 50 years except that one. And it was also built with a lot of controversy. People were opposing it, calling it a "White Elephant".

Financing

Of all infrastructure sectors, transport and water have long attracted the least private investment in developing countries. While private financing of African infrastructure has surged since 2005, only about 10% of this rise has gone to transport. Public-Private Partnerships (PPPs) are particularly rare in the road sub-sector, notably due to high-perceived risks. To encourage private sector involvement, governments can play a central role regarding planning, safety, security, competition and regulation.

UGANDA GOVERNMENT'S RESPONSE

Infrastructure Development and Maintenance

Transportation Infrastructure

1. The Government of Uganda has made the development and maintenance of Uganda's road network the first priority, given its contribution to economic growth and development. We have embarked on a programme of building all-weather roads and ensuring that they are well maintained. In order to address this challenge, Government is putting in place measures to increase efficiency and effectiveness in the implementation of road projects, complete projects in a reasonable time and do so at a fair and competitive cost.

2. As a result of this, this financial year 2008/09, we have allocated a total of Ug.Shs. 1.1 trillion to the road sector for road development and maintenance (approximately US$ 700 million). This now makes this sector the largest single allocation in the whole budget, overtaking the education sector for the first time in many years.

3. Under this programme, critical strategic investments will include the construction of the Northern Transport Corridor into a dual carriageway from Busia/Malaba to Katuna (the Kenya border to the Rwanda border). US $200 million is already provided in Financial Year 2008/09 for work on this international highway and a total of US $600 million over the next three years for the construction of major highways. This is the first time that we are committing such substantial funding from our own budgetary resources to the construction of major roads. This has become necessary because it is now clear that the cost of delay in the disbursement of donor funds that are tied to the fulfillment of conditionalities is harmful to the economy.

Below are some of the examples of the roads due for construction. Upgrading and rehabilitation of the following roads will either commence and/or continue in Financial Year 2008/09:

i. Fort-Portal-Bundibugyo;
ii. Kabale-Kisoro-Bunagana;
iii. Soroti-Dokolo-Lira;

iv. Gayaza-Zirobwe;
v. Kaiso-Tonya-Hoima;
vi. Mattugga-Semuto-Kapeeka,
vii. Mukono-Katosi,
viii. Nyendo-Sembabule,
ix. Mpigi-Maddu,
x. Mbarara –Kikagati,
xi. Ntungamo-Mirama Hill,
xii. Muyembe-Moroto,
xiii. Kapchorwa-Bukwo,
xiv. Nyakahita-Kamwenge,
xv. Mbale-Bumbo-Magale,
xvi. Kyenjojo-Hoima-Masindi,
xvii. Gulu-Bibia,
xviii. Arua-Koboko-Orapa,
xix. Masaka-Bukakata
xx. Kampala-Mbarara

4. In addition to the work to be coordinated by the Government from the centre, the Government will acquire road equipment for use in the districts to maintain district roads. There will be a considerable recruitment of manpower to ensure a continuous maintenance of roads throughout the country.

On this issue of roads, we had a lot of problems relying on external funding. It is very disruptive and potentially destabilizing. You know there is a road; some of the partners say: “We are going to work on that road”. At the last minute, they say: “We have no money”. And the governments in Africa these days are elected. It is not like in the past when there were military governments. So, to promise people a road; then you don’t build it because some donor somewhere has let you down, is not acceptable. That is why for us we are saying that for the major roads, we shall do them. It is the same for energy!

So, I think that what these seminars can do is to harmonize on this point. Even if people don’t bring funding; but we agree that rail, road and electricity are some of the most important. This will be very, very important; so that the World Bank and anybody who claims to talk about development knows it. Just harmonization of perceptions is good enough. Even if you don’t give me money; but you don’t obstruct me, that is good enough.

5. Concerning rail transport, in view of its importance in reducing transport costs, plans for the re-opening of the railway between Tororo and Gulu and Pakwach, and between Kampala and Kasese will be prepared during the current Financial Year 2008/09. Government will also develop a master plan for the further development of the national rail network and will, as a matter of urgency, provide resources for the development of an alternative route through the Port of

Dar es Salaam by rehabilitating wagon-ferries on Lake Victoria. Ug Shs. 14 billion has been allocated in the current budget for the purchase of a new ferry wagon to replace the *MV Kabalega* which sank in Lake Victoria in 2004.

Advancing Investment Policy Reform in Africa
Over the last two decades Uganda has consistently made significant strides in creating a conducive pro-business environment which has attracted Foreign Direct Investment (FDIs) and remittances. Consequently, Foreign Direct Investment has grown from US$ 60m in 1995/96 to US$537m in 2007/08. With respect to remittances, from Ugandans working a broad, whereas Uganda attracted US$ 119 in 1995/96, these have increased to US$ 786m in 2007/08.

Socio-Economic Performance of Uganda 1985 to 2008

	1995/96	2001/02	2005/06	2006/07	2007/08
Total Investment % of GDP	18%		24	26	27
Private Investment (% of GDP)	12		19	20	21
Remittances (US$ml)	119	403	530	659	786
Foreign Direct Investment (US$ml)	60	190	261	433	537

These investments have significantly contributed to the growth of the economy; and GDP growth has averaged about 6.5% over the last 10 years, GDP growth per annum thus putting Uganda among the fastest growing economies in the World. This in turn has enabled the Ugandan economy to invest in infrastructure, health and education services.

In spite of these achievements, however, we cannot afford to be complacent. With a population of 30 million people, 30% of whom still live below the poverty line (having reduced from 56% in 1992) and a GDP per capita of US$ 493, it is not yet time to relax.

Uganda has, over the last 20 years made several investment policies and initiatives. I should point out that this economic performance is in spite of the fact that we are still exporting raw materials; this is part of the problem. The figures can go up to ten times if you add value. Instead of exporting unprocessed coffee for which you get one dollar per kilogram; if you export processed coffee, for which you get 20 dollars per kilogram, these figures will change very quickly. This is another battle ground – adding value. But of course adding value is also linked to low cost of transport and low costs of electricity, because this would attract investment in value addition. So it is like a vicious cycle which must be addressed by dealing with transport and energy to lower costs of doing business in Africa. The economy would be performing much better if we addressed those bottlenecks including adding value of exports.

1. We have consistently adhered to a policy maintaining a stable macro economic environment characterized by security of person and property, low inflation and a stable exchange rate regime that is determined by the market. That is not administratively controlled.

2. Second, we took a set of policy decisions for opening up opportunities for private sector to invest and make profits. These included liberalization of the produce sub-sector, permitting retention and use of foreign currency by private enterprises and inviting investments in areas such as telecommunications and banking.

3. Third, we undertook specific policy measures to attract foreign investment through the enactment of the Investment Code and establishment of the Uganda Investment Authority (UIA). Tax incentives were also initially introduced to attract investments in specific sectors of the economy; and we intend to improve these incentives. At one time we had some interference by some people, with our investment incentives regime; but we are sorting that one out now.

   When somebody invests in your country he helps you to solve a number of problems. If, for instance, he builds a factory in your country:

   i. First of all he helps you to add value to your raw-materials especially us who have been producing raw-materials.
   ii. Secondly, he creates employment for you.
   iii. He buys your electricity, water; for instance, somebody cannot come from India with his own electricity -- he has to use this one here. Water and so on.
   iv. Fourthly, either directly or indirectly, he will pay taxes. Even if the investment regime is giving tax relief, the people who are employed in that factory will pay taxes directly or indirectly by buying consumer goods for instance. If somebody was not buying sugar or any commodity that has got a tax on it but now he is able to buy it that contributes to your tax collection; and the capacity of the state to provide services.

   So liberalizing or giving very good incentives to investors is correct. I do not now why some people are opposing it. You wonder -- is this malice? How can somebody educated not see this? Somebody who has studied economics at secondary school level, forget about university level, to have this attitude. It is amazing.

In the recent past, additional measures to improve the investment climate have been put in place. These have included amending and putting in place new laws geared at easing the cost of doing business. New introductions include the insolvency bill, company bill, free zones bill and mortgage bill just to mention but a few. And I am insisting that land should be given free. Anybody building a factory here should get free serviced land. No question of rent, because we are not renters; free land for investment. We shall recover it through creating jobs for our people.

New institutional adjustments include the establishment of the Uganda Registration Services Bureau (URSB) as a semi-autonomous agency under the Ministry of Justice and Constitutional Affairs (MOJCA); making the Uganda Investment Authority a “One stop Centre” for investors; and creation of a Presidential Investors Roundtable (PIRT) as a public-private sector dialogue which keeps the President in touch with up-to-date on investment opportunities and challenges.

I will not conclude my opening remarks without commenting on the global financial crisis and it’s implications for developing countries like Uganda. The Global financial crisis and the earlier upward trends in food and fuel prices are a reminder that we live a dynamic and changing World. Therefore, the prescriptions of yesterday are not likely to be appropriate in the situation of today. We have learnt that regulation is important in order to have sustained economic growth.

The World is increasingly a global village where governments have to work together in political, economic and security matters if the global economy is to grow on a sustainable basis. I have been telling my people here that this World crisis has got some good elements for us. I was very happy when I heard that food prices were going up. A very happy man. Why? Because since time immemorial in Uganda we have been producing a lot of food but we have not been having anybody to buy it. So when I hear that people have no food in the world; well I don’t want to be selfish, but I feel a bit happy because my chances go up for selling to those people. And the protectionism of Europe and Japan and United States etc. has been blocking us out of those markets. Now, with this food crisis, these countries will have no alternative but to open their markets; because it is clear some of these protectionist policies in Europe were being subsidized by the Third World, by selling cheap fuel, energy and cheap food. So we shall have to think again about how to live in the world.

I am very happy that there is a big movement of population in China out of poverty into prosperity. This has meant more demand for cement and steel because they are building better houses; and there is more demand for fuel. It is the same India, even in Africa. Some of these Ugandans are beginning to drive

cars. A few are dying because they are over driving, but many are driving. So, how will the world economy be organized?
For the last 300 or so years we have been having a world Aristocracy – people in Western Europe, Japan, North America who living a very good life -- good houses, cars etc; and the rest of the world living in poverty. Now, all of us are arriving at the table of prosperity. Can we continue in the old ways? I don't know what the Think Tanks are saying. I hear there are Think Tanks in the world, in these universities. I think they need to eat more bananas to think better for the world.

So this global crisis is really interesting; and certainly for Africa. It is, in my opinion, not a bad situation. Yes we shall have some problems here, like those the Executive Director Uganda Investment Authority was talking about; but in the long run, a re-organized world economy will better for the human race.

Can all the households of the world population of 7 billion drive cars? And what sort of cars? What will be the impact on the environment? And can the natural resources sustain it? We need to do a little bit of thinking on some of those issues.

Uganda is currently developing a five year National Development Plan (NDP) that is to guide us on how we can ensure economic prosperity by making Uganda a regional distribution hub for a wide range of products and services including food and transport-related services. Uganda may need a policy on how to attract sovereign funds from the Middle East and Asia into the agriculture sector and bio-fuels. This could be another area for this meeting to provide us with innovative ideas.

I look forward to your recommendations and suggestions on some of the points I have raised above.

I wish you fruitful deliberations.

I now have the pleasure to officially open the Uganda NEPAD/OECD Africa Investment Conference.

I thank you.

Kampala,
December 10, 2008