## 2011 Investment Climate Statement – Uganda

## Overview of Foreign Investment Climate

Strong economic growth, open markets, and abundant natural resources provide good opportunities for knowledgeable investors in Uganda, though significant challenges such as poor infrastructure, high energy and production costs, and corruption can make Uganda a difficult investment climate. The Government of Uganda (GOU) practices sound macroeconomic management, and is revising a range of laws and regulations to improve government accountability, open markets, develop infrastructure, and build a more attractive environment for foreign investment.

Uganda's potential for larger amounts of Foreign Direct Investment (FDI), is tempered by weak infrastructure, insufficient electricity and high energy costs, the lack of a skilled workforce, political interference, and high levels of corruption. Electricity and road networks urgently need renovation and expansion. With an installed total capacity of just 415 megawatts (MW), Uganda's electricity network reaches only 10% of the population, and load shedding across the country is common. The dilapidated road infrastructure increases transportation costs and leaves the country vulnerable to bottlenecks and disruptions. A two-lane highway from Kenya remains the primary route for 80% of Uganda's trade and election-related violence in Kenya in 2007-2008 virtually halted imports into Uganda for more than two months, causing a spike in commodity prices. Uganda has increased public sector investment in roads, telecoms, and energy and is actively seeking private sector partners to overcome these deficits.

Corruption and government interference in the private sector are endemic. In commercial disputes, Government agencies and politically-connected insiders may ignore court rulings against them, leaving foreign investors with no official means of recourse. A recent tax dispute over the sale of oil rights has held up oil production in Uganda for over a year and has led some investors to question the government's commitment to contract sanctity.

Uganda's social services systems are lagging behind the demand generated by economic expansion and population growth. At 3.2% per year, Uganda's population growth rate is one of the highest in the world and Uganda's current population of 31 million is expected to triple in the next 30 years. While creating potential markets for products, the country's population growth is already increasing the strain on social services, infrastructure, and land resources.

## Openness to, and Restrictions Upon, Foreign Investment

Uganda is open to foreign investment and provides attractive incentives for medium and long-term foreign investors. The Heritage Foundation's 2010 Index of Economic Freedom ranked Uganda's economy 76 of 179 countries, and as the fifth freest economy of 46 countries in sub-Saharan Africa based on the ease of doing business, openness to trade, property rights, and fiscal and monetary policy.

Since coming to power in 1986, President Yoweri Museveni established relative political stability and economic growth. He encourages foreign businesses to set up operations in

Uganda, particularly in value-added manufacturing and agro-processing. In 2001, Uganda created the Uganda Investment Authority (UIA) to assist foreign and domestic investors. A revised investment code is still under review. Once adopted, this code will turn the UIA into a one-stop shop for investors by granting the UIA new powers to obtain secondary permits for investor operations, allocate government resources for investment, and provide government incentives for rural investment.

Uganda is moving away from a much-criticized emphasis on ad hoc, venture-specific incentives for potential investors in favor of an approach aimed at leveling the playing field for all investors. Uganda now offers investment incentives and is implementing reforms to ease business transactions. The UIA is implementing a plan to construct industrial parks in the country's largest population centers. The government is financing the project with a $27 million World Bank loan and $10 million budget allocation. The first park is located eight miles east of Kampala in Namanve, with electricity, sewage systems, roads, and telecommunications infrastructure jointly funded by the World Bank and the government. While works are still ongoing at the Namanve park, it is open for business, and companies have started to move in. Others parks are planned for Kampala, Mbarara, Mbale, Gulu, and Soroti. According to the UIA, land at these sites is available and applications for development are being accepted. The government will subsidize investor costs based on a formula that calculates the amount to be invested and other factors such as the number of workers to be employed by the venture. For more information on incentives for investment, see the section below entitled "Performance Requirements and Incentives." Investors can also find information on the UIA website at www.ugandainvest.com.

According to UIA, Uganda attracts many investors from the Middle East and Asia. In 2010, Firms from the United Arab Emirates, India, and China obtained licenses for cumulative investments worth hundreds of millions of dollars. Firms from traditional investor countries such as Kenya, South Africa and the United Kingdom (UK) also obtained licenses. According to the UIA, India was the largest foreign investor in 2010 with 47 proposed projects worth $173 million. The United Kingdom was second with 13 projects worth $76 million. Firms invested primarily in the manufacturing, finance, agriculture, and mining sectors. In total, UIA granted licenses to 323 projects worth $1.67 billion in 2010. Actual investments, however, are typically lower than commitments.

U.S. foreign investment in Uganda remains relatively small. In 2010, UIA licensed six new U.S. investments worth $2.2 million, making the U.S. the 22nd largest investor in Uganda.

Ugandan policies, laws, and regulations are generally favorable towards foreign investors, though revised legislation is needed. Uganda is revising more than 20 commercial and bankruptcy laws to reduce administrative delays and the cost of doing business. This includes plans to revise the Companies Law, modernize and speed up bankruptcy procedures, strengthen intellectual property rights protections, expand and clarify provisions on mortgages, update commercial contract law, and modernize provisions for e-commerce and electronic signatures. Most of these laws are either still in the drafting phase or awaiting Parliamentary review.

A draft Companies Bill, pending in Parliament since 2009, is designed to replace the obsolete Companies Act, which remains the legal basis for the regulation of companies in Uganda. Under both the current and draft law, foreign investors may form 100% foreign-owned limited or unlimited liability companies and majority or minority joint ventures with Ugandan partners without restrictions. Licensing from UIA requires a commitment to invest over $100,000 over three years. (See “Performance Requirements and Incentives" below.) Most foreign investors establish themselves as limited liability companies. Ugandan law also permits foreign investors to acquire domestic enterprises or establish greenfield ventures. The new Companies Act allows for the creation of single-person companies, permits the registration of companies incorporated outside of Uganda, and provides new provisions for share capital allotments and transfers. For a full description of the type of companies that firms are allowed to establish, visit the UIA website at www.ugandainvest.com, or see the Business in Development Network Guide to Uganda available at www.bidnetwork.org.

Ugandan courts generally uphold the sanctity of contracts, though judicial corruption and procedural delays caused by well-connected defendants are a serious challenge. At times, Ugandan government agencies are reluctant to honor judicial remedies issued by the courts. Courts apply the principles of English common law. Under current debt collection laws, creditors can prove their debts to a court-appointed receiver for payment. Secured debtors receive payment priority.

In recent years, the Uganda Revenue Authority (URA) has improved its efficiency, boosted transparency, and increased tax compliance. Part of this success is due to an internal restructuring, though the URA has also grown more aggressive in collection by targeting large, often foreign-owned businesses. Despite these improvements, the URA is still perceived as a corrupt institution. Transparency International’s 2010 East African Bribery Index listed the URA as the fourth most corrupt institution in East Africa and the most corrupt institution in Uganda. Government revenue comprised approximately 76% of the national budget in fiscal year 2010/2011, up from 50% five years ago. The URA has offices throughout Uganda to provide local points of contact to address taxpayer concerns. Individuals are taxed at rates between zero and 30%. Business entities are taxed at 30%, though mining companies are taxed at rates between 25% and 45%.

The Investment Code allows foreign participation in any industrial sector except those touching on national security or requiring the ownership of land. The Investment Code also allows licensing authorities to impose performance obligations on foreign investors to which nationals are not subject. While the Code does not specify these obligations, UIA imposes requirements based on the size of investment, staff training, local employment, local procurement and environmental protection. (See section below, "Performance Requirements and Incentives.")

In 2006, the World Bank provided a $70 million credit for the Private Sector Competitiveness Project. This program improves Uganda’s basic infrastructure for business development. The funds are distributed through the Private Sector Foundation (PSF) – a private business advocacy group founded with funds from the United States Agency for International Development (USAID) – to revamp the entire land registry system. Scheduled for completion in 2012, the project also aims to modernize Uganda's business registration service, support the Uganda Law

Reform Commission in the revision of the commercial legislation, develop private sector capacity and skills, boost private sector productivity, and raising the quality, standards, and reliability of micro, small, and medium-sized enterprises. Due to project, the PSF requested an extension through 2013 as well as additional funding for the land registry.

Foreign investors in Uganda should be aware that projects that could impact the environment require an Environmental Impact Assessment (EIA) carried out by the National Environment Management Authority (NEMA). The requirement for EIAs applies to both local and foreign investors. In 2007, President Museveni withdrew plans to allocate a protected forest reserve to investors for the expansion of sugar cane and palm oil plantations after violent domestic protests and international criticism from environmental groups. Likewise, environmental groups raised serious concerns over the 250 MW Bujagali hydroelectric dam, delaying the project and causing some potential partners to withdraw from the project. The dam is being funded privately with a loan guarantee from the World Bank's International Finance Corporation.

Uganda's lack of adequate electricity supply and poor road infrastructure are major impediments for investors as road blockages, load shedding, and unexpected power outages generate unexpected costs for all businesses. Uganda currently has just 415 MW of operational electricity capacity, leaving some 90% of Ugandans with no access to electricity. Completion of the Bujagali dam in 2012 will relieve some pressure. Uganda is seeking investors for the construction of an additional 1,045 MW of electricity generating capacity in the next five years, though demand is expected to continue to outstrip supply due to Uganda's economic and population growth. The 2010/2011 budget provides $66 million for energy infrastructure development, down from $170 million in 2009/2010. Uganda is continuing its commitment to invest in roads, with plans to spend $483 million in 2010/2011. While this is down slightly from $559 million in 2009/2010 and $680 million in 2008/2009, it is still higher than the $390 million spent in 2007/2008 and illustrates a continued emphasis on roads.

The telecom sector is booming after the GOU lifted a moratorium on new mobile telephone operator licenses. This has generated new competition, lower prices, expanded coverage, and greater telephone penetration among the population and throughout the country. Further, Uganda is investing $117 million on a national fiber-optic network to take advantage of the arrival of undersea fiber-optic cables in East Africa. The first two phases of this project are complete and the third phase is scheduled for completion in June 2011. This will eventually result in decreased costs and increased internet speeds as ISPs switch to fiber from expensive and slow satellite connections.

| **Measure** | **Year** | **Index/Ranking** |
|---|---|---|
| TI Corruption Index | 2010 | 2.5 (127/178) |
| Heritage Economic Freedom | 2010 | 62.2 (76/179) |
| World Bank Doing Business | 2011 | 122/183 |
| MCC Gov’t Effectiveness | 2011 | .27 (77%) |
| MCC Rule of Law | 2011 | .49 (82%) |
| MCC Control of Corruption | 2011 | -.10 (47%) |
| MCC Fiscal Policy | 2011 | -.21 (55%) |

| | | |
|---|---|---|
| MCC Trade Policy | 2011 | 74.8 (75%) |
| MCC Regulatory Quality | 2011 | .52 (92%) |
| MCC Business Start Up | 2011 | .918 (41%) |
| MCC Land Rights Access | 2011 | .780 (93%) |
| MCC Natural Resource Mgmt | 2011 | 69.48 (71%) |

**Conversion and Transfer Policies**

Uganda keeps open capital accounts, and Ugandan law imposes no restrictions on capital transfers in and out of Uganda. Investors can obtain foreign exchange and make transfers at commercial banks without approval from the Bank of Uganda (BOU, the Central Bank) in order to repatriate profits, dividends, and make payments for imports and services. The BOU prefers that investors make large transfers through the Central Bank itself in order to help it monitor and maintain the stability of the Ugandan shilling, though this is not a requirement. Investors have reported no problems with their ability to perform currency transactions.

**Expropriation and Compensation**

There has been no case of expropriation since Museveni came to power in 1986. The Ugandan Constitution states that the interests of a licensed investor may only be expropriated when it "is necessary for public use or in the interest of defense, public safety, public order, public morality or public health..." The Constitution also guarantees "prompt payment of fair and adequate compensation, prior to the taking of possession or acquisition of the property." The Constitution guarantees any person who has an interest or right over expropriated property access to a court of law. Uganda is a member of the Multilateral Investment Guaranty Agency (MIGA) and the International Center for the Settlement of Investment Disputes (ICSID).

**Dispute Settlement**

Uganda is reforming its commercial justice system, which now includes mandatory mediation for all commercial disputes to help reduce case backlogs. Uganda opened its first Commercial Court in 1999 and has three commercial court judges and one deputy registrar. In 2007, a new law allowed for Chief Magistrates and Grade One Magistrates to adjudicate more commercial disputes, easing the burden on the commercial court judges. The court strives to deliver to the commercial community an efficient, expeditious, and cost-effective mode of adjudicating disputes. Despite a lack of funds and space, the commercial courts dispose of disputes within about seven months, as opposed to the several years it used to take commercial litigation to wind through the Ugandan judiciary. However, approximately 80% of disputes are settled out of court to save time and money. Some investors complain that the process favors local companies and that political pressures can disrupt and delay outcomes. Government agencies often refuse to follow rulings, leaving foreign investors few official channels to turn to. The Center of Arbitration for Dispute Resolution (CADER) can assist in commercial disputes.

Uganda is a party to the New York Convention of 1958 on the Recognition and Enforcement of Foreign Arbitral Awards. Pursuant to the Reciprocal Enforcement of Judgment Act, judgments of foreign courts are accepted and enforced by Ugandan courts where those foreign courts accept and enforce the judgments of Ugandan courts.  Monetary judgments are generally made in local currency.  Ugandan penalties may not be a sufficient deterrent since the penalties have not increased to account for currency depreciation.  Pursuant to Section 73 of the Arbitration and Conciliation Act, the GOU accepts binding arbitration with foreign investors.  The act, which incorporates the 1958 New York Convention, also authorizes binding arbitration between private parties.

**Performance Requirements/Incentives**

There are no mandatory performance requirements in the Investment Code, but licensing authorities may impose obligations on a foreign investor as a licensing condition.  The most basic licensing condition is that investors creating 100% foreign-owned enterprises should commit in their proposals to invest a minimum of $100,000 to their projects over a course of three years.  This amount can include pre-investment activities and the cost of land, equipment, buildings, machinery, and construction.  Foreign-owned banks and insurance companies are also subject to higher paid-up capital requirements than are domestic firms.  Some foreign companies have also encountered difficulty in obtaining land due to complex land laws and a non-transparent land registry.  (For more information on land ownership, see "Right to Private Ownership and Establishment," below.)

Uganda's fiscal incentive package for both domestic and foreign investors provides generous capital recovery terms, particularly for medium and long-term investors whose projects entail significant plant and machinery costs and involve significant training.  In Kampala, 50% of allowances for plants and machinery and 100% of training costs are deductible on a one-time basis from a company's income.  A range of annual deductible and depreciation allowances also exist, resulting in investors normally paying substantially less than the 30% corporate tax rate in the early years of their investment.  In order to promote export-oriented manufacturing investment, the GOU included several tax incentives in the 2008/2009 budget.  These included a removal of the import duty on plant and machinery imports, as well as for schools, hotels, hospitals, agro-processors, and heavy truck transporters.  The GOU also provides a 10-year tax holiday for investors engaged in export-oriented production and, if the investment is located more than 25 KM away from Kampala, for agro-processing investors.  In the 2009/2010 budget some of these incentives were enhanced and others were introduced.  Import duty on trucks with a carrying capacity of at least 5 tons was reduced from 25% to 10% and trucks with a minimum capacity of 20 tons now have no import duty.  Taxes on spare industrial parts were removed as was duty on insulated milk tanks.

The Law Reform Commission has proposed draft legislation on investment incentives, but further steps have not been approved.  The draft legislation would include an exemption on withholding tax on interest on external loans, repatriation of dividends to provide relief from double taxation, exemptions from duty on raw materials, and a waiver of export tax.  Foreign investors should consult the UIA and carefully evaluate depreciation allowances by region and sub-sector prior to investing.  The GOU will often work with foreign investors to provide additional incentives, including further tax reductions, government subsidies, or the provision of land.

## Right to Private Ownership and Establishment

The Land Act of 1998 codified many of the complex land laws in Uganda. Foreign companies or individuals may not own land, but they may hold it under long-term lease. Foreigners must seek Cabinet approval through the UIA to lease land over 50 acres to be used for agricultural or animal production purposes. Uganda has not initiated any changes to allow foreign investors to purchase freehold property.

Businesses generally deem acquisition of land with a clean title as one of their biggest challenges. According to the International Finance Corporation's 2010 Doing Business Survey, Uganda's property registration process ranked near the bottom, at 150 out of 183 countries surveyed. It is estimated that there are more than 8,000 fake land titles in Uganda. The Private Sector Foundation, with credit from the World Bank, is in the process of creating a new land registry and intends to establish five land offices throughout the country.

The issue of land and title in Uganda is complicated by the existence of four different land tenure systems: customary, mailoland, freehold, and leasehold. Customary land refers to rural land governed by the unwritten, customary laws of a specific area. Customary land is difficult to use because no titles or surveys of such land exist and contracts are difficult to enforce in courts of law. Further, banks do not accept customary land as collateral. Mailoland is land that was granted to individuals and churches mostly in central Uganda during the colonial period. Mailoland cannot be owned by foreigners and the use of such land is subject to the agreement of bonafide or lawful occupants, who may not own the land but have the right to reside there. Mailoland is also problematic for foreign investors seeking secure, court-enforceable use of land. The 2009 Land Bill complicated this further by giving occupants and squatters increased rights on mailoland at the expense of owner rights. Freehold land is the system in which registered land is owned permanently. It is only available to Ugandan citizens, though it can be leased to foreigners. It can be also used as collateral for bank loans. Leasehold land is land leased by freeholders and is most commonly used by foreign investors. Foreigners may obtain contracts for leases of between 49 and 99 years on leasehold. It can be used as collateral on loans, depending on the length of the lease.

## Protection of Property Rights

Domestic private entities have the right to own property and businesses and may dispose of them at will. The mass expropriation of Asian properties under the Idi Amin regime in the 1970s was the largest violation of this right in Uganda's history. Over the past two decades, the GOU has actively returned or provided compensation for confiscated property. The Departed Asians' Property Custodian Board, located in the Finance Ministry, reviews claims for property lost during the 1970s.

The Uganda Revenue Authority, Ugandan Customs, and the Ugandan National Bureau of Standards share enforcement of existing counterfeit laws, but lack the funding and resources to adequately enforce these laws. The Uganda Law Commission has drafted new intellectual property rights (IPR) laws regarding counterfeit goods, but the law is awaiting Cabinet approval and passage in Parliament. The draft IPR laws seek to impose criminal penalties of fines and up to two years in jail for patent infringement and for selling counterfeit trademarked or copyright goods. Still, business people who have reviewed the draft complain that gaps in protection remain due to the draft law's heavy reliance on the under-funded Standards Bureau for enforcement.

Many counterfeit goods are manufactured in China. Bootlegged CDs, DVDs, and computer software are openly sold in Uganda's market places. American manufacturers of consumer goods, particularly of shoe polish, batteries, feminine hygiene products, and ink pens complain that counterfeiters are damaging their markets as fake goods serve as a deterrent to future foreign direct investment and damage brand names. Uganda is also losing hundreds of thousands of dollars in tax revenue every year due to understated custom duties from those transacting in counterfeit goods.

Ugandan customs, police, and prosecutors have initiated criminal proceedings against some recipients of illegal goods, but these cases have languished in court for several years without result. Under Section 32 of the Patents Statute of 1991, the Registrar of Patents awards patents for an initial period of 15 years, with a possible five-year extension if a request is made one month before expiration of the original term. Ugandan laws provide similar protections for copyright and trademark holders. Uganda signed the World Intellectual Property Organization's Patent Law Treaty in June 2002, but has not yet ratified it.

**Transparency of the Regulatory System**

Ugandan laws and regulations are published in the Government Gazette, but the regulatory system lacks internal transparency and varies substantially by regulatory body. Government agencies often have hearings, both public and private, where interested parties have an opportunity to comment on draft legislation and regulations. Agencies do not always observe all legal provisions, however, failing to hold hearings, ignoring the requirement for public tenders, ignoring regulatory violations, or providing other types of assistance to well-connected local businessmen. The UIA provides assistance to potential investors in navigating the regulatory process.

Many Ugandan agencies require potential and current investors to cut through substantial amounts of red tape for normal business transactions. The International Finance Corporation's 2010 Doing Business report, for example, ranked Uganda 122 of 183 countries for ease of doing business, down eleven places from 2009. The study found that it takes 25 days and 18 separate procedures on average to open a business in Uganda. Starting a business in certain sectors, such as mining, may take substantially longer. General infrastructure hindrances such as poor telecommunications and increasing amounts of traffic in Kampala slow down certain processes. Some government officials require that firms interested in government procurement contracts provide under-the-table, cash payments in person at local agency offices. Regulatory inefficiencies and corruption negatively affect foreign and domestic firms equally.

The Bank of Uganda (BOU) is reasonably transparent, but the legal system is less so. Courts, particularly at the upper levels, have made independent judgments in the past, but these judgments are sometimes ignored and some parties to legal proceedings take advantage of the legal system's inherent delays and incoherence to manipulate judicial outcomes.

**Efficient Capital Markets and Portfolio Investment**

Capital markets are open to foreign investors. The GOU imposes a 15% withholding tax on interest and dividends. Credit is allocated on market terms, but lending to the private sector is relatively limited, and rates are high. The BOU hoped this would change following the lifting of the moratorium on new banks in 2007. While a number of new banks have entered the market, bringing the current total to 22, rates remain high and lending is still focused on a small portion of the population. Many banks have holdings of GOU Treasury bills and bonds that are often larger than their commercial loan portfolios. Rates of return on government-issued bills and bonds have declined over the past three to five years, causing banks to begin shifting their focus to commercial lending. According to the BOU, during the 2009/2010 fiscal year commercial bank lending to the private sector grew by 25.3%. However, interest rates remain high. Rates for prime borrowers for domestic debt currently range from 17% - 19%. To further increase competition, the BOU has begun publishing interest rates for the various financial institutions.

The Capital Markets Authority Statute of 1996 and subsidiary regulations address the licensing of broker/dealers and of stock exchanges, and established the Capital Markets Authority (CMA) as the securities regulator in Uganda. The Uganda Securities Exchange (USE) was inaugurated in June 1997 and is now trading the stock of 13 companies.

Foreign-owned companies are allowed to trade on the stock exchange subject to some share issuance requirements, and the Kampala exchange contains cross listings of five Kenyan companies: Kenya Airways, East African Breweries, Jubilee Holdings Ltd., Kenyan Commercial Bank, and National Media Group. The East African Development Bank also lists bonds on the USE. In early 2010, the National Insurance Corporation went through an IPO and is now listed in the USE. In 2010, market capitalization of the USE increased by 51% from $3.76 billion to $5.67 billion due to the National Insurance Corporation IPO and the new cross-listing of the National Media Group.

Some large local businesses are reluctant to list on the stock exchange for fear that the disclosure requirements could expose them to greater tax liabilities. Additionally, some of Uganda's largest firms are family-owned operations reluctant to open up to outsider control. Seven companies currently provide brokerage services, including one American-owned firm, Crested Stocks and Securities.

In November 2003, the GOU enacted a collective investment law allowing investors to pool funds to be invested on the USE and in government treasury bills and treasury bonds. In December 2004, CMA licensed African Alliance Uganda to operate the first Ugandan collective investment scheme. Since 2004, the BOU successfully issued two-, three-, five-, and ten-year government bonds. The GOU hopes that by creating a benchmark yield curve it will encourage private companies to access the debt markets. These longer-term government bonds absorb excess liquidity from the market, and help bring down short-term interest rates.

Overall, the banking industry is well capitalized and has no serious non-performing loan problems. Tighter BOU supervision, including more stringent inspections and higher capital requirements, has helped the sector recover from a banking crisis in the late 1990s when several bank failures led to the closing of several institutions. Following a decade-long moratorium on new bank licenses, the BOU provided licenses to seven new institutions in 2007, bringing the number of banks in Uganda to 22. The total size of the commercial banking system has risen to $4.6 billion in 2009, up from $3.8 billion in 2008. Most banks are foreign owned, including major international institutions such as Citigroup, Barclays, Stanbic, and Standard Chartered. Ugandan banks remain conservative and have been criticized for a lack of enthusiasm when it comes to lending to all but the largest blue-chip operations. Interest rates for 12-month corporate loans generally run between 19% and 25%.

The BOU remains one of the most respected central banks in sub-Saharan Africa for its success in keeping markets open, the shilling stable, and inflation relatively low. Its independence, however, is challenged by political pressure to cover debts incurred by politically connected businessmen and the recent use of foreign exchange reserves to finance supplemental government expenditures. The GOU is urging donors to move their accounts from commercial banks to the BOU, claiming it is necessary to control levels of cash in circulation for monetary stability and inflation control purposes.

**Competition from State-Owned Enterprises (SOEs)**

The GOU began a privatization program in 2001 that has resulted in the sale of 128 public enterprises, with 30 remaining in State hands. Of these, 15 are scheduled for divestiture in the next three years. The program has attracted foreign investors primarily in the agri-business, hotel, and banking sectors. The GOU has shown a willingness to consider debt/equity swaps in which government ownership in companies is transferred to private sector minority shareholders on mutually acceptable terms. Though generally deemed successful, some observers question the transparency of certain transactions carried out in the name of privatization, arguing that the benefits of the most lucrative sales went to insiders.

State-owned enterprises currently exist in the mining, hotel & hospitality, agro industry, housing, and transport sectors. In some of these sectors, the GOU is not directly involved in the running of the business but remains a shareholder. The GOU is open to competition from private investors in all of these sectors. Planning is currently underway to develop a National Oil Company to enable the Government of Uganda to take a direct part in oil production and hold assets. Uganda does not currently have a Sovereign Wealth Fund. That may change in the next decade as Uganda experiences a sizable increase in revenue due to oil production.

**Corporate Social Responsibility**

In Uganda, corporate social responsibility (CSR) projects are expected from many of the larger foreign enterprises. This is especially true in the extractive industries and other sectors in which regular business operations do not directly benefit the community. While consumer buying habits are rarely based on CSR, some large corporations have experienced community pressure and social unrest when local residents do not see any direct benefit from their presence. While many enterprises in Uganda espouse some of the CSR principles under the OECD Guidelines for Multinational Enterprises, key areas such as combating bribery and corruption are routinely ignored.

**Political Violence**

The Governments of Uganda, the Democratic Republic of Congo (DRC), and southern Sudan began joint military operations against the Lord's Resistance Army (LRA), a Ugandan rebel group in DRC territory, in December 2008. There have been no LRA attacks in northern Uganda since 2006. Improved security in the north has allowed the vast majority of the 1.8 million internally-displaced persons to return to or near their homes. In north-eastern Uganda, armed cattle rustlers of the Karamojong and related ethnic groups continue to raid cattle and propagate violence. Due to continued security concerns, U.S. government employees cannot travel to Karamoja without first obtaining written approval from the U.S. Embassy Front Office.

In September 2009, approximately 40 people were killed and more than 100 injured during two days of rioting sparked by the GOU's refusal to allow the King of Buganda to travel to the town of Kayunga north of Kampala.

On July 11, 2010, 76 people including an American were killed and many more injured by terrorist bombings in Kampala. Al-Shabaab, the Somalia-based U.S.-designated Foreign Terrorist Organization, took credit for this attack. Information obtained from the investigation into the bombings indicated that Americans and westerners in general were among the intended targets. Per our Worldwide Travel Caution, U.S. citizens should be alert to the possibility of additional terrorist attacks in Uganda. The U.S. Embassy continues to encourage U.S. citizens to strongly consider the risk of attending or being near large public gatherings, especially those with large numbers of westerners and no visible security presence, as these gatherings can provide vulnerable targets for extremist or terrorist groups.

Uganda will hold presidential and parliamentary elections on February 18, 2011. Uganda's 2006 presidential and parliamentary elections were generally orderly and peaceful, and there is no indication that the 2011 elections will be different. Nevertheless, U.S. citizens residing in or traveling to Uganda during the election period should monitor the news and developments throughout the election period.

The State Department has issued a Worldwide Caution with specific information for Americans considering travel to East Africa and Uganda specifically due to the region's continued threat risk from international terrorism along with the recent increase in terrorist attacks elsewhere in the world against perceived soft targets such as hotels, bars, restaurants, and places of worship. High levels of criminal activity throughout Uganda will remain. Spontaneous demonstrations can sometimes occur in Kampala and other cities. Although infrequent, these demonstrations can become violent and should be avoided. American citizens considering travel, employment, or investment in Uganda should read the Country Specific Information available at www.travel.state.gov for current security information.

**Corruption**

Transparency International's corruption perceptions index ranked Uganda as 127 out of 178 countries surveyed in 2010. While Uganda's ranking improved from 130 in 2009, the overall score remained the same at 2.5 (according to TI, a score lower than 3.0 indicates "rampant corruption"). Transparency International's 2010 East African Bribery Index ranked Uganda as the second most corrupt country in East Africa (after Burundi) and ranked the Uganda Revenue Authority as the fourth most corrupt institution in East Africa and the most corrupt institution in Uganda.

In 2011, the U.S. Millennium Challenge Corporation's (MCC) scorecard placed Uganda's efforts to control corruption at 47% in its peer group, or below average. In 2009, MCC completed a two-year $10.4 million Threshold Country Program designed to strengthen the capacity of Uganda's anti-corruption agencies and enhance prosecutorial efforts. While this program was effective at enhancing some of Uganda's technical capacity for fighting corruption, political will remains absent and the program was not renewed.

Several high-profile government corruption scandals in recent years have resulted in few or no sanctions against the officials involved. Where the GOU has initiated criminal proceedings against high-level officials, the cases have dragged on in court with no resolution. In 2010, a bi-partisan Parliamentary committee implicated several senior ministers in a $123 million corruption scandal related to the Uganda's hosting of the 2007 Commonwealth Head of Government Meeting.

American firms have noted some difficulties due to lack of transparency and possible collusion between competing business interests and government officials in tendering processes. Foreign companies are often targeted by tax collectors and auditors to make up for revenue collection shortfalls. Some foreign businesses have been urged to take on prominent local partners. Government procurement is not transparent. In previous years, several high-profile government tenders for infrastructure projects were suspended following allegations of corruption. Some American firms, which are bound by the U.S. Foreign Corrupt Practices Act, suspect they have lost tenders to bidders from countries which have not criminalized the paying of bribes to foreign officials.

Anti-corruption legislation, regulations, and ethics policies do exist in Uganda, but much of it is not enforced and does not meet international standards as established in The United Nations Convention Against Corruption and the African Union Convention on Preventing and Combating Corruption. The Penal Code Act (Chapter 120, Laws of Uganda) and the Prevention of Corruption Act (Chapter 121, Laws of Uganda) criminalize the offering or receipt of bribes. Penalties range from fines up to $3,000 and/or up to 10 years in prison. Other draft legislation, including an anti-counterfeiting act and whistle-blower legislation, has not yet been presented to Parliament. Anti-money laundering legislation is also pending in Parliament.

**Bilateral Investment Agreements**

Uganda is a member of the World Trade Organization. Uganda is also a member of the East African Community (EAC) along with Kenya, Tanzania, Burundi, and Rwanda. While the EAC has passed protocols establishing a Customs Union and Common Market among the five countries, numerous exceptions, unchanged regulations, and bureaucratic inefficiencies still hamper the free movement of goods, capital, and people. Uganda, along with its counterparts in the EAC signed a Trade Investment Framework Agreement (TIFA) with the United States in July 2008. Uganda is a member of Common Market for Eastern and Southern Africa (COMESA), but not a participant in the COMESA Free Trade Area.

Uganda has also negotiated bilateral tax treaties with several nations, including China and South Africa. The EAC signed an Economic Partnership Agreement with the EU in 2007.

Uganda was among 26 countries which signed onto an initiative aimed at establishing an African free trade zone stretching from Cairo to Cape Town in October 2008. According to the initiative, the members of the EAC, COMESA, and the Southern African Development Community (SADC) will draft a roadmap for creating a single trading bloc that would speed economic integration and therefore help African economies compete in the global economy. Observers remain skeptical that the entire group of countries is truly interested in the initiative.

**OPIC and Other Investment Insurance Programs**

Uganda is a signatory to the Multilateral Investment Guarantee Agency (MIGA) of the World Bank and is a member of the International Center for the Settlement of Investment Disputes (ICSID). In 1965, the U.S. and Uganda signed an investment incentive agreement. Both parties signed an updated agreement in 1998, but the Ugandan Government has yet to ratify the renewed agreement. In 2003, the Overseas Private Investment Corporation (OPIC) signed a master guarantee agreement with Citigroup to establish a lending risk-sharing facility in Uganda for local loans. In 2004, Export-Import Bank signed a similar master guarantee agreement with DFCU Bank. In 2007, the Export-Import Bank upgraded Uganda's financial guarantee availability to "long-term," which, at up to twelve years, is the longest guarantee available through the Bank.

**Labor**

Education and expertise are low in Uganda, though Uganda's universal primary education program is improving some basic skills. Most urban Ugandans speak English, though many speak it only as a second language to one of 33 local languages spoken in Uganda. Labor unrest is sporadic in Uganda, and labor unions are not strong. Under the current arrangement, employers must contribute an amount equal to 10% of an employee’s gross salary to the National Social Security Fund (NSSF). When passed, the draft Uganda Retirement Benefits Authority Bill should add some competition to the NSSF and partially liberalize the pension sector. This legislation is being reviewed by Parliament. Labor laws also specify procedures for termination of employment and termination payments. Foreign nationals must have a permit to work in Uganda.

Uganda cooperates with the International Labor Organization (ILO) and has ratified all eight ILO conventions.

The National Organization of Trade Unions (NOTU) is the largest labor federation, and includes about 15 unions. Its rival, the Central Organization of Free Trade Unions (COFTU), includes five unions. Union officials estimate that of the two million persons working in the formal sector, 1.2 million are "potential" union members, but only 300,000 have paid union dues.

Uganda's Industrial Court is funded directly by the national budget (not through the Labor Ministry), and the President of the Industrial Court has the status of a judge. The Industrial Court has the power to re-instate employees who are improperly dismissed, and to impose fines against employers.

Uganda employs 39 inspectors to address child labor and other issues such as inspecting workplaces and processing worker and management complaints. This mechanism contributes to the enforcement of labor standards but lack of staffing and resources hampers its effectiveness. The Ministry of Gender, Labor, and Social Development is working to strengthen the capacity of existing labor officers.

In May 2007, the GOU launched its national child labor policy. Comprehensive anti-trafficking in persons legislation was passed in April 2009. There are active programs underway, with support from the ILO and the U.S. Department of Labor, to combat child labor, but the practice nevertheless remains a concern in Uganda, particularly in the informal sector.

**Foreign Trade Zones/Free Ports**

The Free Zones Bill of 2002, which will authorize the creation of Free Trade Areas (FTA) within Uganda, is still awaiting final Cabinet approval. The Ugandan government is using a $24 million credit from the World Bank to create three FTAs: the Kampala Industrial and Business Park (open), Luzira Industrial Business Park and the Bweyogerere Industrial Estate. Incentives such as duty drawbacks, originally included in the pending Free Zones Bill, were reflected in the 2009/2010 budget.

**Foreign Direct Investment Statistics**

The values quoted below should not be relied upon for any investment decision. The figures provided by the UIA are highly variable and inconsistent and the values tracked are only for projects listed. No investors provide updates after the initial registration. Historically, actual investment trails planned investment totals by a factor of five. FDI statistics are provided by the World Bank. Any discrepancies with previous reports are a result of updated data.

| Net FDI (million $) | FY05 | FY06 | FY07 | FY08 | FY09 |
|---|---|---|---|---|---|
| Inflows | 379.81 | 644.26 | 797.27 | 787.4 | 603.75 |
| Outflows (Residual) | --- | --- | --- | --- | --- |

| Value of Projects Licensed by the Uganda Investment Authority (listed in million $) | | | | | |
|---|---|---|---|---|---|
| Sector | 2006 | 2007 | 2008 | 2009 | 2010 |
| Agriculture, Hunting, Forestry and Fisheries | 72.21 | 28.99 | 60.89 | 203.27 | 664.55 |
| Community, Social and Personal Services | --- | 41.06 | 34.10 | 66.35 | 32.57 |
| Construction | 32.46 | 223.83 | 58.10 | 175.88 | 125.70 |
| Electricity, Gas and Water | --- | 742.50 | 173.34 | 69.93 | 12.57 |
| Financing, Insurance, Real Estate, Tourism, and Business Services | 351.6 | 109.9 | 380.89 | 309.84 | 294.97 |
| Manufacturing | 291.2 | 325.36 | 641.23 | 577.36 | 327.20 |
| Mining and Quarrying | 10.48 | 88.25 | 30.36 | 53.8 | 103.31 |
| Transport, Communication and Storage | 468.6 | 444.81 | 946.12 | 84.65 | 49.33 |
| Wholesale & Retail Trade, Catering & Accommodation Services | --- | 218.33 | 55.90 | 31.04 | 62.85 |
| **Total** | **1226.55** | **2223.03** | **2380.93** | **1571.82** | **1673.03** |