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THE REPUBLIC OF UGANDA

KEY NOTE ADDRESS BY

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PRESIDENT OF THE REPUBLIC OF UGANDA

AT

ADDIS FORUM

ON

"INVESTMENT, THE SHORTEST ROUTE TO DEVELOPMENT IN AFRICA"

8TH MARCH, 1998.

Your Excellencies,

Ladies and Gentlemen,

I would like to thank H.E. Meles Zenawi, The Prime Minister of Ethiopia for inviting me address this most important forum.

This forum is being hosted at a very crucial stage in Africa's development and is posing a very critical theme "***Investment - the shortest route to development***"

It is very pertinent that we, the political leadership in Africa, pause and reflect on the role the private sector shall play as we approach the millennium.

THE PRIVATE SECTOR:

This question is being raised precisely because there was tremendous disorientation in the past as to the stimuli that can cause growth and transformation in our pre-industrial economies. Owing to the bad and mostly tragic experiences Africa had with Europe(slave trade, colonialism, genocide land expropriation, massive epidemics of cattle and people caused by imported diseases, etc.), there were three trends among African leaders at independence:

(a) **The so-called conservatives** (but who had little to conserve) undertook the role of comprador capitalists whereby the main activity of their countries was to import foreign manufactured and consumer goods and export only raw materials whose prices are ever declining. In the Cold War these were pro-West.

(b) **The radicals** (whereby radicalism was measured mainly by anti-Western rhetoric rather than the capacity to cause sustainable transformation), on the other hand, mistook political independence with "economic transformation" in order to avoid "net outflow"of resources out of the Country. The serious misundertanding by this group was due to the failure to atomize the inflows and outflows if private enterprises involving foreign capital was to be involved. Even if an enterprise is foreign-owned 100 percent, only 15 percent will be dividends which the foreign owners may repatriate to their home countries. The remaining 85 per cent will be comprised of wages, purchase of raw-materials, purchase of utilities and taxes. As far as the leftists were concerned, the answer was " state enterprises" since the locals had no money or experience to start enterprises is lack of vested interest by the management and the absence of a proprietor class that would have supervised the bureaucratic management.

(c) The third tendency was comprised of the **very corrupt and ignorant leaders** who, on account of lack of education, could not fit in either (a) or (b) above. Unlike in (a) and (b) where the economies remained stagnant but functional, category C ensured complete collapse: no civil service; no police; no courts; no consumer or capital goods;a big black market in forex; triple digit inflation; and negative growth rates.

There is no doubt that the economies in all the three trends either stagnated (more or less) or declined. The proof is that, not a single sub-Saharan country (other than South Africa) today has got a GDP of US$ 50 billion in current prices. Compare with South Korea, Indonesia, Malaysia, Singapore, and other countries which were roughly at the same level of development by 1960.

The Western Countries responded to these strategic blunders by offering life-saving (sustaining) machines to otherwise dead bodies in the form of aid. This was another blunder. Systems that ought to have collapsed or adjusted to real life were sustained. One example can highlight this.

Why were African leaders paying only lip-service to, for instance, developing a regional market? In East Africa we broke up our highly integrated Common Market (with one currency) only to accept an observer status in the EC. Wonderful wisdom. Disband your own market and become an observer in somebody else's!

Another example has been the persecution of Indian investors in East Africa. Any politician who has got nothing, say, attacks Indians while they are the most vigorous investors with a sentimental attachment to East Africa.

THE IMF AND WORLD BANK:

Their basic prescriptions are good, namely that we should not spend the money we do not have. If you spend the money you do not have, this would lead to printing money which is supported by production and services which causes inflation and weakens the currency.

The problem I have with IMF is that they have *bad manners*. They come to us with their minds already made up and they do not give us the opportunity to propose what should be done. It is always the IMF board which decides. But we too have our own boards; the cabinets, the parliaments and the people. They too should be involved if we are to claim the ownership of these programmes.

The other problem is that they mop up the bleeding wounds of the economies but do not look out the structural causes of the *bleeding*.

Now that the *Morning Star of Rennaisance* is rising we should know that to depend on others for livelihood is at worst potential slavery and, at best, parasitism. Therefore, the only viable and sustainable way of co-operation between Africa and other areas of the World is investment and not aid. Aid is limited (mere tokenism in some cases), diverts us from seeking for real wealth and promotes internal indiscipline.

In the case of Uganda, we do not put any constraints on foreign investment except in the forms of quality control(that producing something poisonous) or damaging the environment. We are sure that any business that is established in Uganda becomes a citizen of Uganda even if the proprietors are not.

The reason why governments should not be in business is because the private sector is more efficient in its conduct of business - a businessman looks at the bottom line - profits, while governments will consider political and other non-economic issues.

Therefore in inviting investment into our economies we, political leaders, should not view the investors as parasites and ourselves as hosts, rather we should recognize the synergies we are able to enjoy from this symbiotic relationship.

The most fundamental problem of Africa has been that it is mainly a peasant society which is predominantly pre-industrial. This state of affairs can be changed by injecting into our societies the ingredients that transformed industrialized societies such as Europe- that is the middle class. The only people who can create the middle class are the private sector people not African governments. Entrepreneurs are the ones we lack most in Africa, the ones we should welcome and encourage.

THE UGANDAN EXPERIENCE:

I am glad however that there is a general awakening on the African continent that investment has been a missing component and the African governments should at all costs get access to investment resources. Permit me to share with you a few elements of Uganda's experience. We have used this very private sector, through liberalization, as the engine of economic development. We have taken the following measures to create a conducive atmosphere for investment.

Firstly, we have stabilized our macro-economic environment by; stabilizing the foreign exchange rate and ensuring a low inflation rate by controlling spending. This effort has resulted in a GDP growth rate of 6 per cent per annum for the last ten years.

Secondly, we have liberalized the economy resulting in a free capital flow into and out of the country and the currency is 100% convertible.

Thirdly, we have established institutions and a legal frame work to facilitate investment such as the Uganda Investment Authority which is a one-stop centre to assist investors under the enabling Investment Code that regulates investment.

THE FRAMEWORK FOR INVESTMENT:

Foreign investment is very competitive and worldwide trends show Africa lagging far behind. Out of the US$ 350 billion in foreign investment flows worldwide in 1996, Africa tapped only 5 per cent which amounts to US$ 16 billion. The bulk of this money went to Egypt, Nigeria and South Africa.

Uganda Investment Authority has recorded a total of 2363 licensed projects between 1991 and 1997 worth US$ 4.915 billion and having the capacity to create at least 163,000 new jobs by the year 2001. Actual investment inflows between 1991 and 1997 according to surveys amounted to US$ 1.34 billion.

Although this is evidence that investors ha ve taken our cue and shown the confidence they hold in our policies, it is still not enough.

To galvanize investment the appropriate regulatory framework must be in place. African countries should subscribe to agencies such as the Multilateral Investment Guarantee Agency (MIGA) of the World Bank Group which insures new foreign investment under non-commercial risk coverages. While such initiatives are in place, I would like to propose that the developed states in Africa set up indigenous low premium risk insurance schemes and information centres to assist the intending investors. Double taxation and bilateral trade and investment agreements should also be pursued.

DEVELOPMENT OF INFRASTRUCTURE:

Africa must also recognize that without adequate infrastructure, there is no short route to development. Infrastructure such as roads, electricity, telecommunications and water supplies have to be provided before we can mobilize investment into our economies.

We should strongly encourage the private sector to invest in infrastructure which is an important catalyst for development.

Governments in Africa have limited resources with which to plan for and use in the development of the country. It is therefore important to plan efficiently for these resources. In the past many countries have injected these limited funds to subsidizing inefficient and poorly run state enterprises. This means that money which should have gone into developing infrastructure and other essential services has been wasted on these poorly run enterprises, producing a few low quality goods which in most cases were not even internationally competitive.

In Uganda we have been bold in privatizing these enterprises. The responsibility to make these enterprises profitable will now be on private businesses. With the money saved government can concentrate on providing such services as modern roads, rail and air transportation network, better education, health services and security for our people.

In infrastructure many areas are also being opened to private business. Former Government monopolies such as power generation, water provision and telecommunications services have now been liberalized and opened up to private investment. This is important to the country which gains investment capital, and it also serves to attract other industries when such services are efficiently provided at a reasonable rate.

REGIONAL INTEGRATION AND ECONOMIC TRANSFORMATION:

Africa will have to transform its economy through international partnerships by pooling our markets and getting assistance from our friends or developing to a stage when we are all partners in a free trade world. If this does not work we shall have to build our own bloc in Africa where we exclude others long enough until we are strong within.

We have also not fully exploited our capital potential. In some countries we do not have developed stock exchanges.

These internal weaknesses must be resolved. Our markets are balkanized because of colonialism. There are small countries here and there. We should resolve this through integration.

Initiatives such as the Common Market for Eastern and Southern African (COMESA), ECOWAS and SADC should be supported. In Eastern Africa we are promoting the region through the East African Cooperation initiative. While the population of Uganda is only 20 million, the population of East Africa, Rwanda and Burundi is 92 million; that of COMESA is 312.7 million; and that of Africa is 750 million people. Therefore, an integrated regional or African market is not to be ignored. The population of Africa will be ...... by 2025.

In the era of the global economy and free flow of information and technology Africa must not be left behind. Africa must promote investment in science and technology so as to prepare for the millennium.

Our people are often wary of new technologies and think they may cost them employment. However borrowing a leaf from the Asian tigers and other nations that have experienced rapid development in the past three decades there is no way Africa will develop without opening up and embracing advanced technologies.

After the collapse of USSR, there was a talk that Africa would be "marginalized" because attention would shift to Eastern Europe and South Eastern Asia. I, however, did not believe such talk. Nobody can ignore Africa. It is too big and to strategically placed, with a potential to be self-sufficient in everything to be ignored by anybody serious about the world economy. In the past it was West Africa's palm oil that lubricated Western machine; it was the African slaves that emancipated Europe from under-development; and it was Congo's uranium that enabled the USA to manufacture the first nuclear bomb.

A more important Africa is about to take centre stage. The importance of Africa is its location, among other factors. If you take Uganda, for instance. 20 per cent of Uganda is under fresh water; she is right at the equator with sunshine all year round; and has got a high elevation. These factors have got a bearing on costs of production. When I visited Sweden, I was told that they produce 26,000 mgw of electricity. I was, however, also told that 13,000 mgws of that goes for heating. We do not have such costs. That is one of the reasons the internal rate of return (IRR) is high in Africa compared to many other areas.

GOOD GOVERNANCE AND SECURITY:

We have talked about the various steps and actions to be taken by African Governments to ensure that they increase the flow of Foreign Direct Investment increase into their countries. There are, however, two major issues that I must emphasize. Good governance and security.

The above two are inherently related. Good governance leads to security and this in turn leads to confidence in the system enabling it to grow. Uganda's past history is a case study in what bad governance and insecurity can do a thriving dynamic economy.

The NRM Government has, since coming to power in Uganda, focused on bringing about political change and stability to the population.

To begin with the emphasis has been on participatory elections from the village level to the executive level. The principle of broad-based government that enable people of diverse political, social and religious backgrounds to be represented at all branches of government ensures a sense of ownership of the system. This will reduce the alienation of key segments of the population and thereby guarantee security. Security is a key to development not only because it encourages Foreign Direct Investment but it also fosters a strong sense of direction in the local population.

Finally, Africa is at the crossroads of a very important historical opportunity. We are in a unique position to learn from the lessons of the industrialized nations and harness investment to serve our nations' needs at the various stages of development.

I, therefore, call upon the new leadership in Africa to make their economies more welcoming and conducive for investment which will inevitably be our shortest route to development.

I thank you.

Addis Ababa

8 March 1998