PRELIMINARY FINDINGS

for the

Private Sector Investment Survey (PSIS) 2007 Survey

Prepared by:

Uganda Working Group

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1. INTRODUCTION

This document presents a summary of the preliminary findings for the sixth survey of the private sector investment survey (PSIS) 2007 which results were disseminated on 27th May 2008 at Imperial Royale Hotel, Kampala Uganda by the Honourable Minister of State for Investments, Ministry of Finance, Planning and Economic Development, Professor Semakula Kiwanuka.

1.1 BACKGROUND

The Uganda Working Group (WG) that comprise of seven stakeholder institutions that include Bank of Uganda (BOU), Uganda Bureau of Statistics (UBOS) and Uganda Investment Authority (UIA) bi-annually organised the Private Sector Investment Surveys (PSIS) 2007 to collect information on the levels of investment in the economy, investor perceptions, private sector external debt (PSED) stocks and flows, and the level of investment abroad.

These preliminary findings from the sixth FPC/PSI monitoring survey were disseminated at a workshop held on 27th May 2008 at Imperial Royale Hotel, Kampala. And presided over by the Honourable Minister of State for Investments, Ministry of Finance, Planning and Economic Development, Professor Semakula Kiwanuka. The workshop was attended by members of the private sector, representatives from Development Finance International (DFI), Macroeconomic and Finance Management Institute of Eastern and Southern Africa (MEFMI), Uganda Investment Authority (UIA), Bank of Uganda (BOU), Uganda Bureau of Statistics (UBOS), Economic Policy Research Centre (EPRC) and Private Sector Foundation Uganda (PSFU).

1.2 OBJECTIVES OF THE SURVEY

The objectives of the survey includes:

- Co-ordinating efforts by carrying out joint surveys on external and real sectors and the investment climate.
- Establishing databases for information sharing compilation, analysis and dissemination of data.
- Producing analytical reports.
- Assessing investment promotion strategy effectiveness.

The results from the survey are intended to provide input to the Balance Of Payments (BOP) and International Investment Position (IIP) compilation, for assessment of employment, foreign exchange flows, domestic policies on private sector investment and business environment.

1.3 SCOPE OF THE SURVEY

The survey targeted business enterprises located in the various regions of the country and were categorized by size (stratified) before selecting the sample size based on available funds.

1.4 CONDUCT OF THE SURVEY

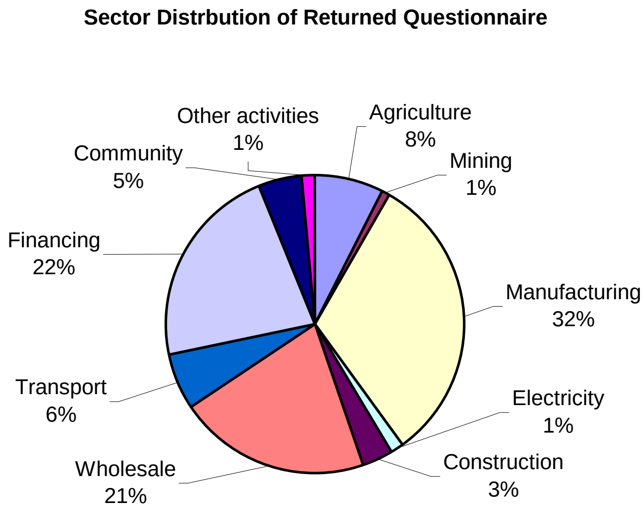
A total of 22 interviews, trained in various FPC/PSI aspects and interview techniques, administered questionnaires to the targeted respondent and carried the necessary follow-ups to ensure their completion for a period of three months. The fieldwork methodology involved direct delivery of questionnaires, interviewing and/or direct completion by the respondent, collection of completed questionnaires by interviewers and editing and checking to ensure data quality by interviewers. The interviewers submitted the filled and completed questionnaires to the FPC secretariat at the Bank of Uganda.

2. PRELIMINARY FINDINGS

The section presents the preliminary findings that covers he questionnaire administration, entity turnover, level employment and compensation of employees. It also includes findings on actual investment, contribution to corporate social responsibility, foreign equity investment liabilities, foreign assets and investors' perceptions.

QUESTIONNAIRE MANAGEMENT

The survey targeted 500 enterprises and a response rate of 85.9 percent was registered with 293 companies submitting copies of the company financial statements. Compared to the response rate of 81.3 percent recorded in the previous survey, this reflects a marked improvement in cooperation with the private sector.



The bulky of returned questionnaires were in the Manufacturing, Financing and Wholesale industrial classification (sector).

2.1 ENTERPRISE TURNOVER

The turnover of the entities on the overall increased by 18.6% from UShs 5,490.5 billion to UShs 6,510.1 billion in 2005 and 2006 respectively.

2.2 EMPLOYMENT

Overall, employment increased by 3.0% from 78,324 employees in 2005 to 80,638 in 2006;

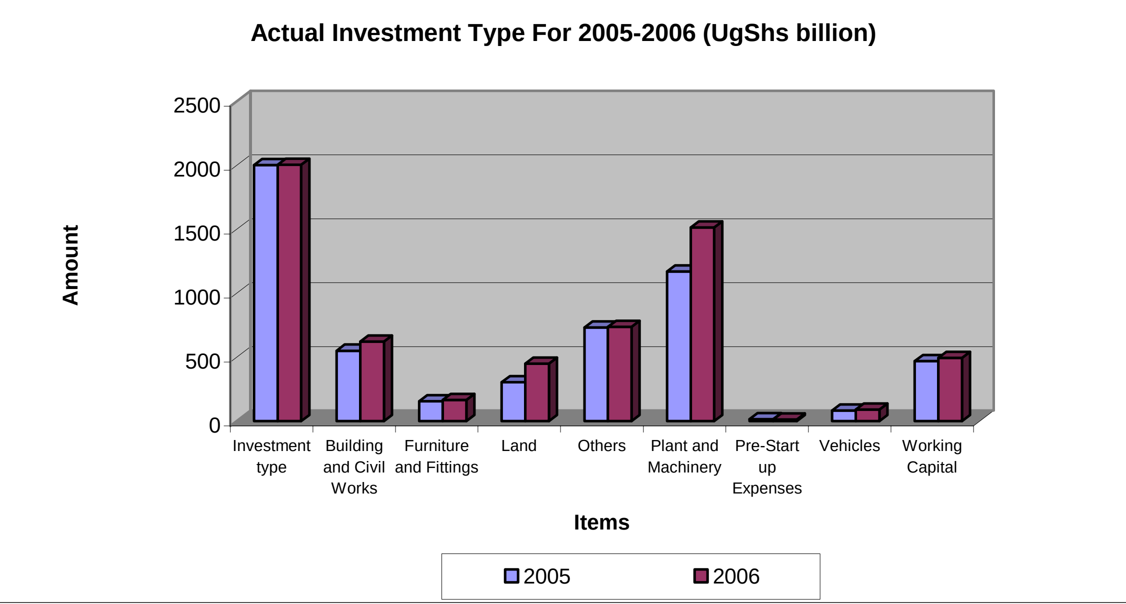
YEAR	**2005**		**2006**	
NATIONALITY	LOCAL	FOREIGN	LOCAL	FOREIGN
ADMINISTRATION/ACCOUNTS	5,740	402	6,270	402
MANAGEMENT/SUPERVISORY	4,112	1,207	4,168	1,226
SKILLED/TECHNICAL	31,070	723	33,204	648
UNSKILLED/CASUAL	35,026	44	34,624	96
TOTAL	**75,948**	**2,376**	**78,266**	**2,372**

Women employees were 22.8% of total in 2005 and increased slightly to 23.1% of total in 2006.

2.3 COMPENSATION OF EMPLOYEES

Compensation for employees rose from Ushs 422.1 billion in 2005 to Ushs 490.9bn in 2006. Salaries and Wages accounted for 81.5 percent of the total value.

2.4 ACTUAL INVESTMENT



Actual investment increased from Ushs 3,483.4 billion in 2005 to Ushs 4,093 billion in 2006. Community accounted for 89.8%, Wholesale (45%) and financing (22.3). Plant and Machinery on average accounted for 35.3% of the total.

2.5 CORPORATE SOCIAL RESPONSIBILITY

A total of 5.1 billion was spent on CSR in 2005 and increased to 7.2 billion in 2006, an increase of 40.8%. Manufacturing sector was the major contributor (47.7%), followed by Financing (17.0%) and Agriculture (11.7%).

2.6 FOREIGN EQUITY INVESTMENT LIABILITIES

Foreign Direct Equity Investment (FDEI) stock, book value increased from US$834.5 and US$976.5 in 2005 and 2006. In market value terms, FDEI increased from USD$928.4 in 2005 to USD$1171.8 in 2006.

YEAR	31ST DECEMBER 2005	31ST DECEMBER 2006
BOOK VALUE (US$M)	834.5	976.5
MARKET VALUE (US$M)	928.4	1,171.8

New FDEI equity flows worth US$39.1 million and US$50.7 were recorded in 2005 and 2006. Transport sector had the bulk of new FDEI equity flows followed by Manufacturing, Wholesale and Agriculture. United Kingdom is still the major source of FDEI followed by South Africa, Kenya, Norway, France, Germany and Luxembourg.

During 2005 and 2006 on average, 91% of Foreign Portfolio Equity Investment (FPEI) stock is in Manufacturing (69%) and Finance (22% while the major sources of FPEI are Kenya, Belgium, UK, Canada and Egypt.

2.7 ENTITY PROFITABILITY, DIVIDENDS AND RETAINED EARNINGS

Entities under Electricity, Transport and Construction sectors reported improved profitability over the two-year period, while Mining and Agriculture reported losses.

In 2005, the Finance sector declared highest dividends (40.2%) followed by Transport (30.7%), Manufacturing (15.6%), Wholesale (8.2%) and Construction (4.8%). The remitted pattern was similar for the same sectors.

In 2006, Transport, Finance, Manufacturing and Wholesale had 61.8%, 25.2%, 6.5% and 5.6% of the Dividends declared, while dividends paid were 62.7% for transport, 20.7% for Finance, 9.7 for manufacturing and 6.1%for wholesale.

Undistributed profits (retained earnings) in the entities amounted to US$107.3 in 2005 and US$92.0 during 2006.

2.8 PRIVATE SECTOR EXTERNAL DEBT (PSED)

Private Sector External Debt (PSED) stock increased by 10% from 2005 up to 2006 and continues to increase every year. The stock of PSED stood at US$694.8m as at 31st December 2004, US$869.1m as at December 2005 and US$959.5m by 31st December 2006.

Over 70% of the total PSED stock is contracted in US$ and over 80 %of total PSED stock is from related sources. In 2005, Mining and Quarrying had the bulk of US$384.9, representing approximately 44.3% followed by Manufacturing with US$205.8m (23%) and Wholesale sector with 102.9m (11.8%). United Kingdom and Canada were the major sources of PSED flows and together accounted for over 50% of the total PSED stock.

2.9 FOREIGN ASSETS

Foreign asset holdings were insignificant compared to foreign liabilities because the survey sample was drawn based on foreign liabilities of resident entities and, also the survey focused on registered enterprises and not individuals.

2.10 INVESTOR PERCEPTIONS

The responding entities identified included Power, Corruption, Interest rates, Smuggling and Cost of communication as the major constraints to the business in Uganda. Over 60% of the respondents indicated intentions to expand investment in Uganda while over 75% had intentions to expand their investment in technology. Notably, expansion of exports, staff recruitment and training were key in the investors' plans.

3.0 CONCLUSION

From the outcome of the survey the following were observed:

i. The bulk of foreign liabilities (over 80%) are made up of Foreign Direct Investment, with Foreign Direct Equity Investment, Re-invested Earnings and Private Sector External Debt mainly coming from related sources;

ii. Foreign Direct Investment is more stable than other sources of funding of investment;

iii. The bulk of Private Sector External Debt is mainly contracted in US$ dollars, which exposes the country to a currency risk;

iv. Considerable amounts of Foreign Direct Investment went into Finance, Manufacturing and Transport sectors;

v. The major sources of foreign investment are United Kingdom and Kenya;

vi. A number of African countries are contributing to foreign investment to Uganda;

vii. Overall, most investors reported profitability;

viii. The investors indicated prospects of expansion of their investment in Uganda;

ix. Information and Communication Technology is a key component for expasion of investment in Uganda;

x. The survey findings will be incorporated into the Balance Of Payments (BOP) and the International Investment Position (IIP).

4.0 NEXT STEPS AND WAY FORWARD

Following the outcome from the PSIS 2007 survey, the Uganda Working Group propose the following as the way forward:

1. To formulate a Policy Action Strategies (PAS) to address the constriants indentifed by the respondents in order to improve the investment climate in Uganda;
2. To further work towards strengthening Private Public Partnerships with the private sector through increased awareness, interaction and effective sensitization;
3. To continue to monitoring PSI/FPC in a timely manner for effective policy formulation and to meet international standards and codes (GDDS);
4. To review the institutional framework for monitoring PSI/FPC in Uganda and also review the Memorandum of Understanding (MOU) between Bank of Uganda, Uganda Investment Authority and Uganda Bureau of Statistics;
5. To continue the process of development of the in-house/domestic/local FPC/PSI software;
6. To finalize and clean up the PSIS 2007 results, incorporate the results in the BOP and IIP and, embark on the writing of the final report;
7. To improve on the monitoring methodology by targeting more frequent reporting on FAL (quarterly), improve on the data for estimation of foreign and external assets for the residents and promote the use of non-survey reporting methods;
8. To encourage the incorporation of PSED data in the Debt Sustainability Analysis (DSA);

9. To embark on the seventh monitoring cycle with training of field staff in June 2008 and commence PSIS 2008 field activities in July 2008;
10. To resume the process of establish Data Time Series incorporating all the previous surveys data sets;

ACKNOWLEDGEMENTS

The Uganda Working Group wishes to thank the respondents (the private sector in Uganda), for their continued cooperation and dedication to the survey demands and requirements, without whom the findings would not have been possible. The Uganda Working Group wishes to ensure the respondents that the data provided will always be kept confidential and will only be published in aggregate form and shall be used in formulating policy to ensure a conducive business environment for all investors in Uganda.

*** The End of PSIS 2007 Survey Preliminary Findings ***