Uganda National Chamber of Commerce and Industry

WHY INVEST IN UGANDA

Strategic Location

Uganda Located at the heart of East and Central Africa, it shares borders with some of Africa's most economically important and resource rich countries, from the mineral rich DR Congo to the rapidly expanding Southern Sudan economy. Uganda boarders the Sudan to the north, the Democratic Republic of Congo to the west, Kenya to the east and Tanzania and Rwanda to the south.
Though Uganda is landlocked, the many borders it shares with her neighbors, give her a commanding importance as a base for regional trade and investment.

A liberal economic regime is another consistent characteristic of the Uganda Economy. There is free inflow and outflow of capital (both current and capital accounts), 100% foreign ownership of investment is permitted through the government incentives and exchange rates are freely determined by the market.

Market Access

Uganda has been secured and guaranteed by membership in various free trade and market access preferences offered to the country. The Common Market for Eastern and Southern African states (COMESA), a region with a market of over 380 million people in 20 countries is one of the groupings in which Uganda is a member, guaranteeing the business community more than 80% tariff reduction in this regional market. The EAC common market which will avail a market of 140 million people in the 5 East African Community Member States come 1st July 2010.

Strong Natural Resource Base

Uganda has got great physical endowments and one of the best climates in the world. With rainfall all year round, fertile soils and favorable temperature range, one can grow any crops in the country in the most natural conditions any country can have. The country takes pride in being the leader in organic agriculture in Africa. Many food stuffs are produced, in an environment free of harmful chemical inputs. There are plenty of unexploited mineral deposits (over 117 minerals). Confirmed deposits include: gold, oil, zinc, wolfram, petroleum, diamonds, vermiculite, silica, and uranium and iron ore.

Government Commitment to Private Sector

The Government and the private sector dialogue in policy formulation are at the highest level and at the center of business development processes in the country. A

Presidential Investor's Roundtable chaired by the Country's President is in place to ensure that government policies keep the private sector at the center. Business Development Strategies including the Investment Climate Strategy (**CICS**), the National Export Strategy (**NES**) and other regulatory frameworks have all been put in place under Public - Private Sector Partnerships. As a result, many vibrant private sector associations have come up to advance their members' concerns. We are having the honor at the Uganda National Chamber of Commerce to coordinate the first ever Pre-summit Private sector Forum under the African Union (AU).

Cost and Trainable Labour

Uganda presently produces ~ 20,000 University graduates per year. The quality of this labour is one of the biggest attractions, being a product of an education system with strong links with the British Education System inherited at independence. The World Bank Doing Business Report (2006) ranks Uganda among the top 25 countries where hiring labour is simplest. The country is also a regional base for training the labour force from the East African region. Being among World Bank's low income economy classification, one of the key advantages of such an economy is low labor costs.

Uganda's Current Incentive Regime

1. Fiscal Incentives

1.1 Capital Allowances

In the 1997/98 Budget Speech, the Hon Minister for Finance, under section 14 of the Finance Statute 1997, repealed sections 25 of the Investment Code 1991 which provided for *3 to 6 years tax holiday (see S167 of the IT ACT)*. The Minister proposed a new incentive regime of investment capital allowances to replace the tax holiday facility. The new incentive regime is specified in the Income Tax Act, 1997 in sections 26-38, these investment capital allowances can be summarized in three categories:

Category 1
The incentives covered in this category are capital allowances/expenses which are *deductible once* from the Company's Income.

Type of allowance	Rate.	Condition.
Initial allowance granted in 1st year of production	50%	Granted on cost base of plant & machinery for Industries located in Kampala, Entebbe, Namanve, Jinja & Njeru
Initial allowance granted in 1st year of production	75%	Granted on the cost base of plant and machinery for Industries located elsewhere in Uganda
Start-up costs	25%	Granted on actual cost over the first four years in four equal installments.
Scientific Research Capital Expenditure	100%	Granted on actual cost of scientific research incurred during a year of income in the course of carrying on a business, the income of which is included in gross income. Must be undertaken in the

		development of the persons business.
Training Expenditure	100%	Granted on actual cost of training incurred during a year of income for the training or tertiary education of a citizen or permanent resident of Uganda employed in the business by the employer (not exceeding 5 years in total)
Mineral Exploration Expenditure	100%	Granted on actual cost incurred in mineral exploration. Expenditure of a capital nature incurred in searching for, discovering and testing, winning access to deposit of minerals in Uganda.
Initial allowance granted in 1st year of use of an Industrial Building.	20%	Granted on the cost base of an industrial building, (including tourism facilities like hotels and lodges and capital expenditure incurred on the extension of an existing industrial building but excluding commercial building).
Repairs and Minor Capital Equipment	100%	Granted on actual cost incurred in a year. ·· Expenditure on repair of property occupied or used for the business. ·· Cost of minor capital equipment (a depreciable asset costing less than fifty currency points and functioning in its own right).

Category 2: Deductible Annual Allowances
Depreciable Assets only (classes 1-4 & Farm works) (sixth schedule) under declining balance method per annum:

Class.	Rate.	Condition.
Class 1	40%	Computers and data handling equipment.
Class 2	35%	Light automobiles (buses with less than 30 seater, or

		goods vehicles with a load capacity of less than 7 tons). Construction and earth moving equipment.
Class 3	30%	Heavy automobiles (buses with 30 or more seater, or goods vehicles designed to carry or pull 7 or more tons) Specialized trucks, trailers, tractors, plant & machinery used in farming, manufacturing & mining operations.
Class 4	20%	All other depreciable assets (Railroad cars, Locomotives and equipment, Vessels, tugs and similar water transportation equipment, aircraft, specialized public utility plant, equipment and machinery, Office furniture, fixtures & equipment, etc).
Farming Costs	20%	Farm works i.e. labor quarters, immovable building, other works necessary for the farm)

Category 3: Other Annual Depreciation Allowances

Industrial Building Allowance	5%	Cost base net of initial allowance/deduction on a straight-line basis per annum on qualifying industrial building (includes approved commercial building, Hotels and Hospitals).
Intangible Assets	Varies.	Granted on cost of asset in equal annual installments over its useful life on condition that it has an ascertainable useful life and value e.g. leasehold, patents, royalties.
Horticulture.	20%	Granted on Actual cost in four equal annual installments. Cost must be incurred on acquisition of horticultural plant and/or on Construction of a green house.

The deductions covered under category 1, enable the investor to recover most of his costs in the first year of operation. After applying the initial allowances, the cost base of an asset to which the initial allowance applies is reduced by the amount of the initial deduction allowed to get the written down value of the asset at the end of the year of income, upon which, and in the subsequent years, deductions as shown in Categories 2 & 3 are applied until the Plant/Machinery, Building or Equipment is completely written off. Each year, after allowing the deductions, the resulting Net Income is taxed at an appropriate rate of corporation tax.

1.2 Withholding Tax Exemptions

The following are exempt from withholding tax.

(a) a supply or importation of petroleum or petroleum products, including furnace oil, lubricants, other than cosmetics, and fabrics or yarn manufactured out of petroleum products;

(b) a supply or importation of plant and machinery;

(c) a supply or importation of human or animal drugs;

(d) a supply or importation of scholastic materials;

(e) importations by organizations within the definition of "exempt organization" in section 2(bb)(i)(B);

(f) a supplier or importer -
   (i) who is exempt from tax under this Act; or
   (ii) who the Commissioner is satisfied has regularly complied with the obligations imposed on the supplier or importer under this Act;

(g) The supply or importation of raw materials.

Energy Sector

Uganda is endowed with an enormous potential for hydrological and other renewable sources of energy. The Government of Uganda strives to meet the unenviable challenge of expanding access to affordable, reliable and adequate energy to meet ever increasing household, commercial and industrial demands.

Mining Sector

The mining industry in Uganda reached peak levels in the 1950s and '60s when the sector accounted for up to 30% of Uganda's export earnings. The period after 1986 has been marked by a favorable business climate in Uganda and a number of mining companies have taken up licences in the mining sector - the mining and quarrying industry is now growing at a rate of about 11% per annum. Limestone mined for the production of cement and lime is consumed largely in the local market. Aggregate, gravel and small quantities of gold, tin and tungsten concentrates are currently produced largely for export. There are many high mineral potential areas in Uganda, which remain inadequately explored despite the country's long history of production. Uganda has potential to produce a variety of other important minerals, which are being produced in the neighboring countries with similar geologic environments. Such mineral commodities include: platinum, nickel, diamond and rare earth elements. For more information, please download the file below.

KEY BUSINESS SECTORS;

- Agriculture
- Tourism
- Mining & Energy
- ICT
- Education
- Health
- Livestock
- Edible Oil
- Foods and Beverages
- Leather
- Diary and Diary Products
- Packaging
- Pharmaceuticals
- Metal and Metal Products
- Iron and Steel
- Building and Construction
- Storage
- Transport and Communications
- Financial Services

The Incentive Regime

Uganda's fiscal incentive package provides for generous capital recovery terms, particularly for investors whose projects entail significant investment in plant and machinery and whose investments are medium/long term. The incentives package includes:

1. **Initial Allowances**

The incentives covered in this category are capital allowances expenses which are deductible once from the Company's Income.

Initial allowances on plant and machinery located in

Kampala. Entebbe, Namanve, Jinja & Njeru	50%
Outside Kampala. Entebbe, Namanve & Jinja area	75%
Start-up costs	25%
Scientific Research expenditure	100%
Training expenditure	100%
Mineral exploration expenditure	100%

2. **Deductible Annual Allowances**

Depreciable Assets specified in 4 Classes (sixth schedule) under declining balance method

Class I	Computers & Data handling equipment	45%
Class 2	Automobiles, Construction and Earth moving Equipment	35%
Class 3	Buses, Goods Vehicles. Tractors, Trailers, Plant & Machinery for farming, manufacturing and mining	30%
Class 4	Railroad cars, Locomotives, Vessels, Office furniture, fixtures etc.	20%

3. Other Annual Depreciation Allowances

Industrial Buildings, Hotels & Hospitals	5%
Farming - General farm works (Class 4 assets under sixth Schedule pan 1) declining balance depreciation	20%
Horticulture (Horticultural Plant & Construction of Green houses) Straight line depreciation	20%

- Normal depreciation allowances with the addition of a special 50% initial allowance on plant and machinery means that in the crucial early years of a project, the effective corporation tax rate is considerably less than the nominal 30% rate. - The enterprise keeps a high proportion of its cash flow and income for further investment.

- In addition to the above, Uganda offers a zero rate of import duty tax on plant and machinery as defined in the sixth schedule Chapters 84-85 of the HS Code as well as a uniform corporate tax rate of 30% which is lower than in most African countries. Provisions exist to allow for assessed losses arising out of company operations including the loss from the investment allowance to be carried forward. Such losses are allowed as a deduction in determining the tax payer's chargeable income in the following year of income. Uganda also has a fully liberalized Foreign exchange regime with no restrictions on the movement of capital in and out of a country.

BANK OF UGANDA

FINANCIAL NEWS REPORT

THE FOLLOWING WERE THE DEVELOPMENTS IN THE FINANCIAL MARKET

INTEREST RATES

(All Numbers are in percentages)

Rates as at	Dec 16, 2009	Dec 23, 2009
91-day Treasury bill Annualised Yield		
(Primary Market)	5.44	5.44
(Secondary Market)	5.94/5.80	5.94/5.80
2-year Treasury bond Annualised Yield		
(Primary Market)	12.26	12.26
(Secondary Market)	11.36/11.18	11.36/11.18
3-year Treasury bond Annualised Yield		
(Primary Market)	13.98	13.98
(Secondary Market)	11.54/11.37	11.54/11.37
5-year Treasury bond Annualised Yield		
(Primary Market)	12.67	12.67
(Secondary Market)	12.58/12.38	12.58/12.38
Inter-bank Weighted Rate		
Overnight Call Money Rate (1-30 days maturity)	3.29	2.98
Bank of Uganda Rates		
Rediscount Rate	8.86	8.86
Bank Rate	9.86	9.86

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