Emmanuel Tumusiime-Mutebile: Enhancing an enabling environment for the diaspora to invest beyond remittances in Uganda's social-economic transformation

Speech by Mr Emmanuel Tumusiime-Mutebile, Governor of the Bank of Uganda, at the Biennial Ambassadors' Conference, Kampala, 7 January 2014.

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Your Excellencies the Ambassadors

Ladies and Gentlemen

I would like to thank the Ministry of Foreign Affairs for inviting me to give this talk on enhancing an enabling environment for the Diaspora to invest beyond remittances in the quest for Uganda's Social-Economic Transformation.

Allow me to first highlight a couple of key economic facts on Uganda. Uganda has made considerable progress in the past quarter century on many fronts, including raising people's average incomes and diversifying sources of growth from agriculture.

For example, between 1988 and 2012 Uganda's economic growth averaged 7 percent; industry value added as a percentage of GDP increased from 10.2 percent to 25.4 percent; the share of value added in agriculture as a percentage of GDP decreased from 56.7 percent to 23.4 percent; value added in services as a percentage of GDP rose from 33.1 percent to 51.2 percent. Other socioeconomic indicators include literacy rate (percentage of people ages 15 and above) rose from 56 percent in 1991 to 73.2 percent in 2010; percentage of population in the urban areas increased from 9.9 percent in 1988 to 16 percent in 2012; life expectancy at birth rose from 48 years in 1988 to 58 years in 2011.

Uganda's economic growth was almost twice the Sub-Saharan Africa (SSA) average of 3.6 percent between 1988 and 2012. Moreover, Uganda achieved high growth with low inflation. With exception of 2011/12, inflation averaged about 7.4 percent between 1993 and 2013, below the SSA average of 7.8 percent between 1993 and 2012.

Therefore, Uganda's socio-economic indicators, characterise Uganda as a country that has undergone tremendous change over last quarter century. More importantly, the process has resulted in the dramatic fall in poverty and improved the living conditions of the Ugandan people. This trend is reflected in the reduction of head count poverty; from Poverty headcount ratio at national poverty line of 56 percent in 1992 to 24.5 percent in 2009, and from 68.7 percent of the population living on less than $1.25 a day at 2005 international prices in 1989 to 38 percent in 2009.

These changes were underpinned by sound economic management, reflected in the various reforms Uganda undertook since the early 1990s. These reforms made investing in the Uganda very attractive. The liberalisation of the Ugandan economy meant that Ugandan Diaspora could invest solely or in partnerships in Uganda.

Indeed, the major driver of Uganda's economic growth has been private sector gross fixed capital formation, which as a percentage of GDP rose steadily from 5.2 percent in 1988 to 18.3 percent in 2008 before declining to 15.8 percent in 2012. Ugandan Diaspora, both directly and indirectly contributed to this surge in private sector investment and therefore economic growth.

However, in the last five years, Uganda's economic progress seem to have slackened. Indicators such as the World Bank's Country Policy and Institutional Assessment (CPIA), which rates countries against: economic management; structural policies; policies for social inclusion and equity; and public sector management and institutions suggest that Uganda's has been in reverse over the last 5 years.

For instance, on the CPIA for transparency, accountability, and corruption in the public sector rating Uganda's rating in 2012 was 2 after declining from 3 in 2008 (the rating is from 1 to 6 with 1=low and 6=high). Regarding the CPIA on economic management cluster, Uganda's rating averaged 4.16 in 2012, a decline from 4.5 in 2008; while on the CPI for public sector management and institutions cluster, Uganda's rating averaged 3 in 2012 also a decline from 3.3 in 2008. These and other indicators characterise Uganda as a country that has to reengineer its economic performance trend.

Moreover, the positive economic developments notwithstanding, GDP per capita, PPP (constant 2005 international $) which rose from 539 to 1165 in 2012, is still far below least developed economies average of 1346 and SSA average of 2094. In addition, according to the United Nations Development Program 2013 Human Development report, Uganda ranks among the countries with low Human Development at the rank of 161 out of 187 countries.

Gini index which measures the extent to which the distribution of income among individuals or households within an economy deviates from a perfectly equal distribution suggest that income inequality which had declined from 44.4 in 1989 to 37.1 in 1996 has since increased and by 2009 was 44.3. In other words, whereas poverty has decreased, income inequality has almost remained at the same level of the late 1980s.

1. Diaspora as fundamental link

The role of the Uganda Diaspora is vividly evident in the remittances into Uganda which as a source of foreign exchange as well as resources for consumption and investment have grown steadily in recent years. For instance, in 1998 remittances were estimated at US$165 million, equivalent to 2.6 percent of GDP. In 2012, this had risen to US$910 million equivalent to 4.3 percent of GDP during 2012. The average remittances per year between 2008 and 2012 amounted to about US$ 800 million, which exceeds official aid which averaged US$ 538 million but equivalent to Foreign Direct Investment (FDI) in Uganda. In addition, remittances have been a more stable source of capital than private capital.

Remittances have had a direct impact on poverty reduction because they flow directly to households. According to the Uganda Bureau of Statistics and BOU Inward Personal Transfers report of 2012, the recipient households use remittances to support general household expenses and education (81 percent was used on consumption compared to 16.9 percent that was used for non-consumption purposes and 2.3 percent that was transferred to other households).

However, remittances have not played a major role beyond supporting household welfare yet the Ugandan Diaspora could play in enhancing and enabling FDI into Uganda. The Ugandan Diaspora community have the potential to invest in its own right, but also has the knowledge, expertise and experience that could be deployed in enabling private sector investment. However, so far remittances have supported household welfare with little if any in direct investments in Uganda. Ugandan Diaspora can play an important role in the economic development of Uganda. Beyond sending remittances, they can also promote trade and public-private partnership and FDI, create businesses and spur entrepreneurship and transfer knowledge and skills.

In addition, the Uganda Diaspora executives working for multinationals abroad can play a role in influencing investment decisions to outsource operations to firms in Uganda. The Ugandan diasporas' skills could also be mobilized to provide managerial and knowledge expertise to firms and R&D laboratories in Uganda. Diasporas can also help spread ideas. Worldwide, many of the emerging world's brightest minds are educated at Western Universities. An increasing number go home, taking with them both knowledge and contacts. For example, Indian computer scientists in Bangalore bounce ideas constantly off their Indian friends in Silicon Valley. China's technology industry is dominated by "sea turtles" (Chinese who have lived abroad and returned). Uganda can learn from this.

In particular, unlike other foreign investors, Ugandan Diaspora investors may have other considerations that do not fit nicely with generally accepted FDI rationale. First, they may be more likely to invest in Uganda even when other investors could consider Uganda high-risk, simply because they have better knowledge and relationship opportunities that other investors lack. Secondly, they can combine this knowledge with the skills, knowledge, and networks they have cultivated abroad, yielding important synergistic advantages. Third, they can invest for altruistic reasons – for "love of home country", with the expectation that their investment will have a positive impact on families left behind in home.

2. What can the Ministry of Foreign Affairs do?

Uganda's growth prospects and returns on investment which are among the highest make investing in Uganda very attractive. The increasing urbanisation, the rapid growing consumer-oriented market, strong demographics, rising investment in infrastructure, and improving corporate governance and regulation, all bode well for the continued growth of Uganda' s investment story.

However, Uganda is facing various challenges and is currently incapable of fully exploiting its economic potential. The challenges include: Human capital, representing the store of knowledge, skills and values acquired through education, work and social learning that raise productivity and well-being; Infrastructure deficit e.g. inadequate electricity, poor road network, railway system, etc. Lack of these, means high costs for doing business and this scares away business even from the Ugandan Diaspora.

Without business, there is no employment, no production of goods and services, no expanding of the tax base, etc. It is a vicious cycle. Another bottle neck is weak institutions; which is combination of low human capital, infrastructure and political rent seeking and political patronage. Ugandan Diaspora can play a vital role in allaying some of these challenges.

Ugandan Diaspora could become an important class of investors because they have a better understanding of the risk assessment capability of their country, which makes them less risk averse to the opportunities that appear very risky to the average investor. Their personal attachment and commitment to their country of origin turns them into investors with a longer-term outlook, which often is critical, particularly in infrastructure. Everyone is aware of Celtel's and Mohammed Ibrahim's success by investing early in African mobile technology when most others did not think Africans could really afford cell phones. Once the investment has been made, the Diaspora investors have a much easier time developing local relationships and reflexes that are essential to the long-term success of the investment.

The Government bonds are one way that non-residents are able to invest, especially in much needed infrastructure (power, transport and telecommunications). Government bonds, however effective in providing access to large-scale transformative projects (for example, Kenya's 12-year Infrastructure Bond paying 16 percent yield), do not offer direct access to development projects run by local companies. What Uganda, and both resident and Diaspora Ugandans need, is a way of enabling direct investments in projects which help strengthen the economy, have a developmental impact on the community and increase Uganda's standing as a high-growth investment destination.

The Ministry of Foreign Affairs roles in strengthening Diaspora investment and entrepreneurship in Uganda.

The Ministry of Foreign Affairs can play a key role in strengthening Diaspora investment and entrepreneurship. It can:

a) create programmes that provide investment-related information;

b) connect potential investors to a reliable network of local officials and financiers;

c) cultivate feelings of connectedness by developing specific incentives for investment such as local investment events, voting rights, participation in local politics and other means of instilling a true sense of belonging in diasporans; and

d) implement specific practices aimed at measuring the effectiveness of their efforts. Without a customized and comprehensive approach, the optimal growth of Diaspora investment and entrepreneurship will be stunted;

e) together with other relevant ministries explore how highly-qualified experts in the Diaspora could be engaged without the need for physical relocation, to render services through virtual interaction.

The government stands a greater chance of successfully winning the hearts and minds of Ugandan Diaspora communities if it spends adequate time and resources developing professional, fully integrated branding and communications campaigns for the Ugandan Diaspora communities. Reaching out to Ugandan Diaspora can be done through multiple promotional channels – Diaspora community events, publicity, public relations campaigns, web portals, Internet blogs, and other methods. Leveraging technology to build a relationship with Diaspora communities may represent a particular imperative if the government is to establish a role for the Diaspora youth within the economic development planning.

One of the greatest challenges of governments seeking to strengthen Diaspora investment and entrepreneurship is determining the best way to organize national efforts to court and connect with the Diaspora. Should existing agencies be adapted or reorganized to engage the Diaspora? Should new organizations be created? Some countries, such as Jamaica and India, have created separate ministries for Diaspora affairs. Other countries, such as China, have taken a much more local approach, establishing Diaspora assistance agencies at provincial and municipal levels. Ghana has bifurcated its national investment-promotion agency, separating the staff who deal with non-resident Ghanaians from those who focus on non-Ghanaian investors. Specific policies and programmes aimed at strengthening Diaspora investment and entrepreneurship are in their infancy in many countries. Judging the effectiveness of many of these efforts is therefore difficult. As governments develop Diaspora-specific activities, they should also be devising a means to measure the effectiveness of their efforts.

In my view, if Uganda was to take the route of directly stimulating Diaspora investment (including issuing of Diaspora Bonds), it must give serious thought and consideration to Diaspora status issues. For example, will Diaspora investors or entrepreneurs be entitled to special economic incentives and benefits that are not available to non-Diaspora? Whereas this may help incentivize some Diaspora to make economic commitments in Uganda, these types of investment policies are often hard to undo once rendered. What will the legal status of Diaspora be relative to their resident counterparts? How will their interests be represented formally and informally within the Uganda political system?

I strongly believe that creating too great a privileged status for Diaspora relative to local citizens ultimately may flop in terms of promoting Diaspora investment and entrepreneurship, because such favouritism may breed mistrust, resentment and even contempt among local citizens for Diaspora investors and entrepreneurs.

In conclusion, Ugandan Diaspora is a crucial actor for economic development. Development is about expanding the choices of the poor and vulnerable and the Ugandan Diaspora has contributed to this. The potential for even greater contributions is, nevertheless, immense. Better tuned government policies and cooperation can make the difference. The main task is to make the Ugandan Diaspora true partners for development in both countries of origin and of residence.

Thank you for your kind attention.