

# FDI linkages in Uganda

The extent of integration in the local economy

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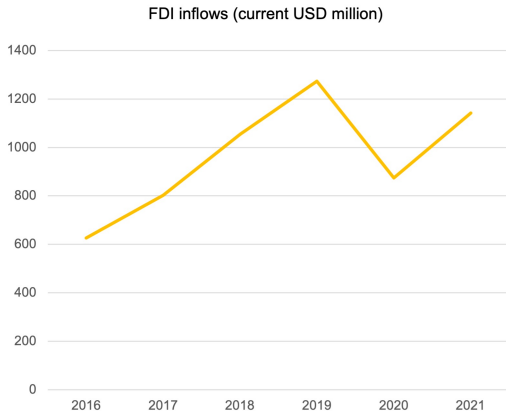
1<sup>st</sup> September 2022

# FDI in Uganda and the potential for supplier linkages

As the economy recovers from the COVID-19 pandemic, FDI may offer an opportunity to boost local competitiveness

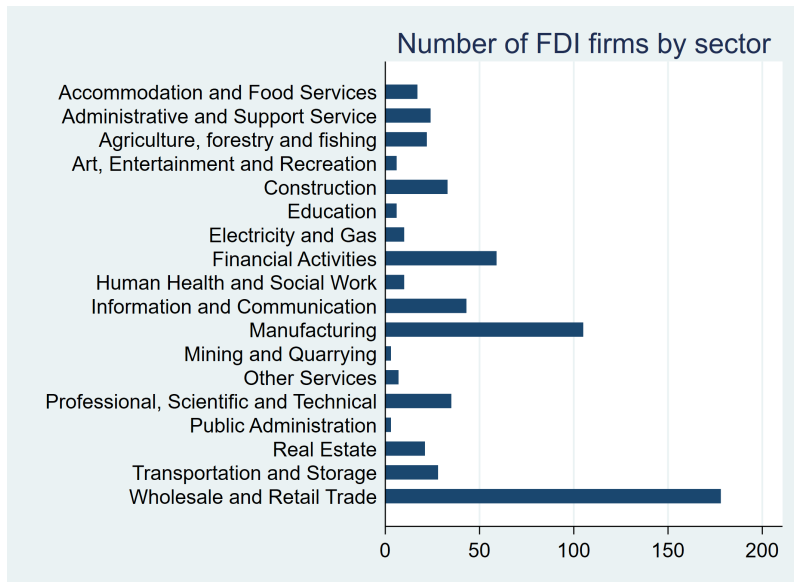
Many studies have shown the direct and indirect benefits of FDI

**To what extent is FDI integrated with local suppliers in Uganda?**

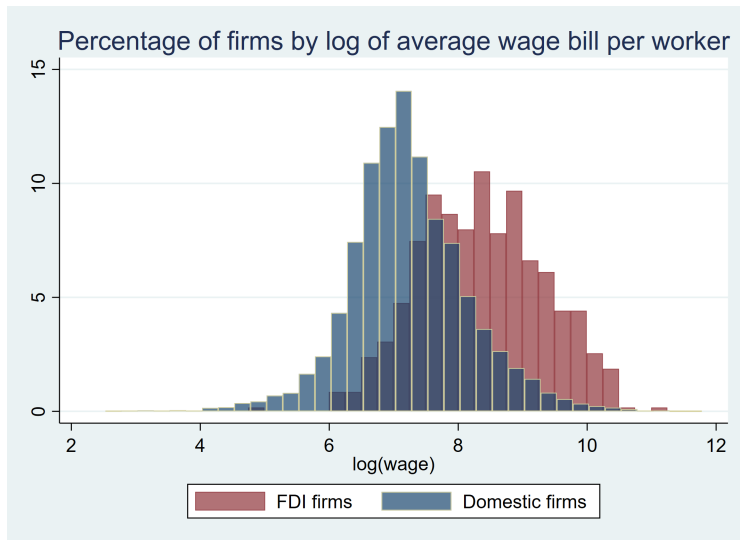


Source: UNCTAD, 2022

# What activities do FDI firms operate in?



# FDI firms participate in higher wage activities



Note: average annual wage bill per worker of each firm is expressed in 2013 CPI deflated USD.

# FDI firms contribute significantly to the Ugandan economy

And are much larger than the average domestic firm

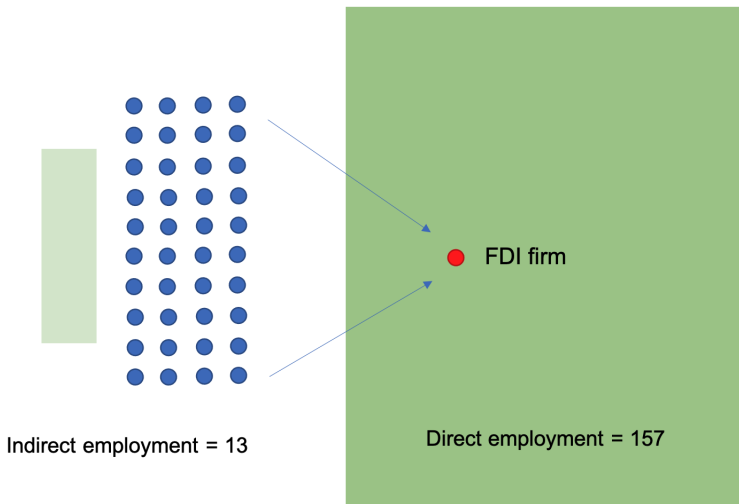
**Table 1: Descriptive statistics by type of firm (Average across years)**

Type of firm	# Firms	Sales	Workers	Exports	Imports
FDI firms	588	13,458,100	158	1,192,351	1,891,912
Domestic firms	17,540	965,111	26	41,857	142,454

Note: All variables except number of workers are expressed in 2013 CPI deflated USD. Figures refer to the set of firms covered by the intersection of VAT and CIT tax records over the period 2013/14 - 2016/17.

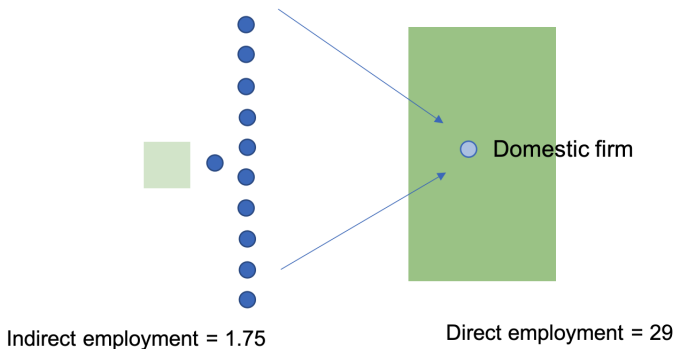
Despite making up **3%** of firms, FDI firms accounted for **46%** of exports and **35%** of sales in 2016/17.

# FDI firms generate more direct and indirect employment...



Note: Figures based on averages across years studied. To compute how much indirect employment is attributable to an FDI firm, we weigh the number of workers of supplying firms by the share of direct and indirect sales (up to 10 degrees) that those firms sell to FDI firms.

...than domestic firms

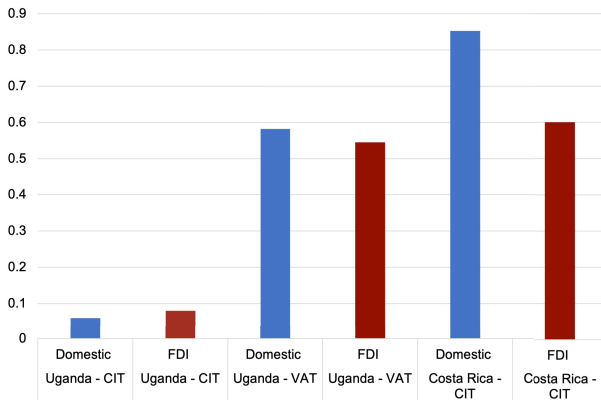


Note: Figures based on averages across years studied. To compute how much indirect employment is attributable to an FDI firm, we weigh the number of workers of supplying firms by the share of direct and indirect sales (up to 10 degrees) that those firms sell to FDI firms.

The number of indirect jobs *per direct job* created is similar for FDI and domestic firms in Uganda

Unlike in Costa Rica

### Ratios of indirect to direct employment generated by type of firm (average across years)



What is driving this difference in FDI behaviour?



# FDI firms in Uganda are more oriented to the domestic market...

## Local sales: FDI vs domestic (Uganda)

Sector	Local/Total sales (FDI Uganda)	Local/Total sales (Domestic Uganda)
Agriculture, forestry and fishing	39.5%	70.4%
Manufacturing	90.7%	90.3%
Services	99.8%	99.5%
Wholesale and Retail Trade	93.0%	96.9%

## Local sales: FDI vs domestic (Costa Rica)

Sector	Local/Total sales (FDI Costa Rica)	Local/Total sales (Domestic Costa Rica)
Agriculture, forestry and fishing	49.8%	36.6%
Manufacturing	66.6%	84.2%
Services	97.1%	95.1%
Wholesale and Retail Trade	94.8%	93.3%

# ...Which reduces the need for imported inputs

Apart from in wholesale and retail

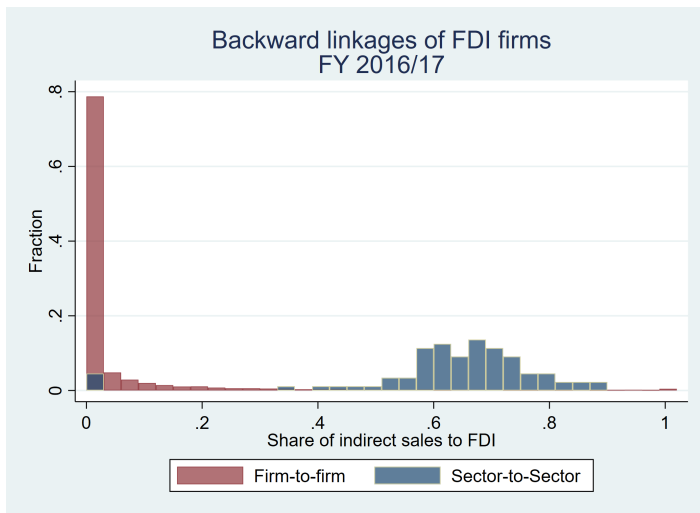
## Local sourcing: FDI vs domestic (Uganda)

Sector	Local/Total purchases (FDI Uganda)	Local/Total purchases (Domestic Uganda)
Agriculture, forestry and fishing	92.4%	89.2%
Manufacturing	58.0%	56.8%
Services	86.8%	87.5%
Wholesale and Retail Trade	59.3%	73.1%

## Local sourcing: FDI vs domestic (Costa Rica)

Sector	Local/Total purchases (FDI Costa Rica)	Local/Total purchases (Domestic Costa Rica)
Agriculture, forestry and fishing	93.2%	94.8%
Manufacturing	65.8%	73.4%
Services	74.8%	70.0%
Wholesale and Retail Trade	56.8%	54.9%

# VAT data shows that FDI firms are less integrated than standard I-O tables



Note: Figure shows the distribution of total (direct and indirect up to degree 10) share of sales of domestic firms going towards FDI firms according to firm-to-firm data (black) and 2-digit ISIC sector-to-sector aggregated data (grey).

## What distinguishes FDI firms with greater linkages?

**Firm sector** plays an important role, even after accounting for firm size:

- ▶ FDI firms engaged in financial activities, ICT, and manufacturing, for example, generate more indirect employment than domestic firms operating in the same sector.
- ▶ FDI firms operating in wholesale and retail, and accommodation and food services, by contrast, generate relatively less indirect employment than domestic firms operating in the same sector.
- ▶ This is in contrast with Costa Rica, where for example FDI firms in manufacturing are less integrated than domestic firms in the same sector.

# The role for policy: attracting FDI

1. An enabling environment for high value added investment: infrastructure and trade facilitation are critical
2. Streamline criteria/processes for entry
3. Enhancing legal protections for investors e.g. on land and intellectual property
4. Transparency around investment opportunities and regulations

Particular attention can be paid to sectors that generate significant linkages to the local economy that have the potential to raise local productivity.

# The role for policy: strengthening linkages

Two challenges:

- ▶ Information asymmetries
- ▶ Quality, reliability and scale of local supply

Facilitation rather than regulation - e.g. through:

1. Collaborative skills training (and in the long run, investments in health and education)
2. Fiscal support to large firms engaging in training, technology transfer, and quality control

Thank you!

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