CIA/OER/IM 71-24 NATIONALIZATION IN UGANDA

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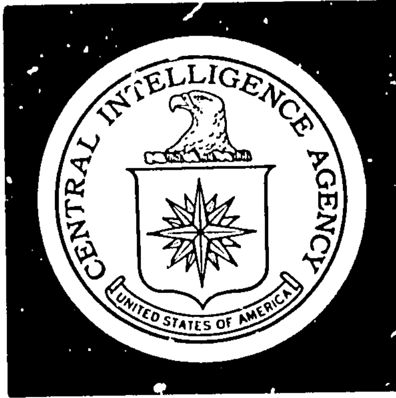

DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Nationalization In Uganda: Progress And Effects

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CENTRAL INTELLIGENCE AGENCY
Directorate of Intelligence
February 1971

INTELLIGENCE MEMORANDUM

Nationalization In Uganda: Progress And Effects

Introduction

On 1 May 1970, Uganda announced its decision to acquire 60% ownership of all commercial banks and the most important private companies in manufacturing, mining, plantation agriculture, and transportation. At the same time, trade was nationalized completely, and measures were announced to limit the business activities of foreigners and to replace immigrant labor with Ugandans as rapidly as possible. In general, partnership agreements with the government have been accepted by the foreign companies involved. The move against noncitizen immigrant labor, however, has aggravated unemployment problems in the neighboring East African countries and sensational newspaper accounts have created popular resentment over the manner in which it has been carried out.

The overthrow of President Obote on 25 January coincided with late stages of negotiations regarding nationalization procedures. Although the new military leaders included complaints about high taxes, rising consumer prices, and a growing class of wealthy rulers among their justifications for the coup, they have not objected to the nationalization measures themselves. This memorandum presents the background and progress of the Ugandan nationalization to date and assesses the economic implications of nationalization and related policies for Uganda and the East African Community.

Note: This memorandum was prepared by the Office of Economic Research and coordinated within the Directorate of Intelligence.

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Background

1. During 1970, Uganda introduced measures to increase state control over nearly all economic activity and to exclude foreigners from the monetary economy. In early May 1970, Kampala passed a series of legislative acts authorizing the government to acquire a 60% interest in the share capital of all oil, insurance, and bus companies; the banks; the Kilembe copper mine; and all important plantations and industries. The government was also given control of all import and export activities. Among the companies affected were 84 private enterprises, of which 24 were foreign owned. Uganda would indemnify the companies out of future profits within 15 years. Measures also were passed to limit many business activities to Ugandan citizens and to provide for the progressive exclusion of noncitizens from gainful employment in certain geographic areas. The executive branch was directed to review its policies concerning immigrant laborers for the purpose of limiting the number.

2. In a related move, Kampala imposed temporary controls on payments between Uganda and its two partners in the East African Community, Kenya and Tanzania (see the map). Currency movements were restricted, and all Ugandan currency held outside the country was declared inconvertible. In announcing these measures, the Ugandan authorities stated that the controls would be removed as soon as feasible and that their sole purpose was to prevent capital flight.

3. Prior to nationalization, government participation in the economy mainly involved investments in certain manufacturing and mining enterprises by the government-owned Uganda Development Corporation (UDC). UDC's primary role was to provide funds when private money was either not available or inadequate. The Corporation exercised relatively little control over the economy. As in the majority of the less developed countries in Africa, most economic activity in Uganda is in agriculture, which produces nearly 60% of the gross domestic product and 75% of export earnings and supports 90% of the population. Government participation in agriculture has been limited mainly to

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efforts at diversification away from the two principal cash crops, coffee and cotton, by developing the livestock industry and expanding such export crops as tea, tobacco, and sugar.

Progress of Nationalization Measures

4. Despite their initial pessimism, many of the 84 companies affected have reached agreement, at least in principle, on partnership with the government. With the possible exception of the US-owned Mobil Oil Company, none of the 24 foreign-owned firms have rejected government participation. Moreover, except for the petroleum industry, for which the government has agreed to a 50% share, all either have accepted or appear to be prepared to accept the short end of a 60/40 arrangement. The remaining 60 firms involved are for the most part locally Asian-owned and have no real choice but to accede.

5. The government has been relatively flexible in negotiations with the companies, and consequently they generally believe they can operate profitably with government participation. Most either have been earning good profits, or are about to do so, and recognize that 40% or 50% of future profits is still worthwhile. Moreover, some firms, notably the banks, have recently invested large sums of capital and hope to recover what they can by continuing operations.

6. Management of the nationalized companies is formally vested in the Uganda Development Corporation, but Uganda does not have the personnel to take over effective management. Management contracts are being negotiated so that present management will continue for 4 to 10 years. The takeover of foreign trade also is being implemented gradually, depending on the availability of organizational and manpower resources.

7. The nationalized firms may also receive relatively liberal compensation for the assets taken over by the government. Although the law calls for payments within 15 years out of future earnings, the government in most cases has been willing to negotiate agreements guaranteeing payments in about half that time. These agreements

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also generally guarantee that loan repayments and future profits will be freely remittable abroad in convertible currency. The main outstanding issue is valuation, and a government committee is in the process of studying the companies' records and assessing their worth.

The Companies Involved

8. Eight US companies, with a total investment of about $10 million, are affected. The major companies are Esso, Caltex, and Mobil, whose operations are limited to marketing; American Life Insurance Company, which has formed a new general insurance company, Uganda American Insurance Company, Ltd. (40% US-owned and 60% Uganda-owned); and three locally incorporated commercial banks with controlling British interest -- National and Grindlays (40% owned by First National City Bank of New York), Standard (14% owned by Chase Manhattan), and Barclays (3% owned by Bank of America). In addition, Interkiln Engineering, Inc. of Houston holds a 17% ($70,000) share in the African Ceramics Company in which the government is increasing its equity interest from 55% to 60%.

9. Other major international firms affected are owned by Canadian or West European interests. Chief among them are Kilembe Mines, Ltd., in which Falconbridge Nickel Mines, Ltd. (Canadian) has a $13 million equity investment; Agip (Italian), Total (French), Shell (British and Dutch), and BP (British) oil companies; Bata Shoe Co. (Canadian); and the British-American Tobacco Co. (British). Detailed information on the more important companies involved and on the progress of negotiations is given in Table 1.

Nationalization and Regulation of Trade

10. All foreign trade is now vested in the state-owned Export and Import Corporation, established on 26 May 1970 with an authorized capital of $7 million. The corporation was given the authority to acquire the holdings of all trading firms and to carry on most of the trade not already carried on by the government or by semigovernment

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Table 1

Major Foreign-Owned Firms in Uganda, Status of Nationalization

Name of Company	Parent Country	Type of Business	Nationalization Status	Basis	Remarks
American Life Insurance	United States	Insurance	Accepted	60/40	The first foreign-owned firm to reach an agreement with the Ugandan government. A new joint company, Uganda American Insurance, Ltd., was formed with management held by American Life.
Caltex	United States	Petroleum	---	50/50	Negotiations continuing. Unresolved issues include Uganda's refusal to allow Caltex to repatriate accumulated profits earned prior to 1 May and capital surplus as well as Uganda's decision to evaluate company's financial position itself rather than acknowledge a previously agreed upon independent appraisal.
Esso	United States	Petroleum	---	50/50	Negotiations nearing completion on all substantive points.
Mobil	United States	Petroleum	Not accepted	---	Mobil is the smallest oil company in Uganda and probably will go out of business rather than participate in a joint ownership arrangement.
Shell-BP	United Kingdom Netherlands	Petroleum	Accepted	50/50	Negotiations completed.
Total	France	Petroleum	Accepted	50/50	Negotiations completed.
Agip	Italy	Petroleum	Accepted	50/50	Negotiations completed.
National and Grindlays	United Kingdom United States	Banking	Accepted	60/40	Valuation completed satisfactorily by National and Grindlays and Ugandan valuation committee. General agreement pending.
Barclays	United Kingdom United States	Banking	---	60/40	Negotiations continuing. Major problem concern methods of valuation.
Standard	United Kingdom United States	Banking	---	60/40	Negotiations continuing. Barclays and Standard would merge if they could. Together they are about the size of National and Grindlays and through merger hope to equalize the latter's size advantage.

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Table 1

Major Foreign-Owned Firms in Uganda, Status of Nationalization
(Continued)

Name of Company	Parent Country	Type of Business	Nationalization Status	Basis	Remarks
Bank of Baroda, Ltd.	India	Banking	---	60/40	These two banks will merge. Complete agreement with Uganda is probable after the merger.
Bank of India, Ltd.	India	Banking	---	60/40	
Kilembe Mining	Canada	Copper	Accepted	60/40	Negotiations completed.
Bata Shoe	Canada	Footwear	---	60/40	Negotiations continuing on valuation methods.
Uganda Breweries, Ltd.	Kenya	Beer	Accepted	60/40	Negotiations completed.
The Uganda Company	United Kingdom	Cotton	Accepted	60/40	Negotiations completed.
British American Tobacco	United Kingdom	Tobacco	---	60/40	Negotiations continuing on valuation methods and duration of compensation payments.
Brooke-Bond Uganda Ltd.	---	Tea and coffee	Accepted	60/40	Negotiations completed.

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institutions.* During the transition period, private traders will continue to act as agents of the corporation. The corporation also will be responsible for the government's export promotion policy.

11. Many Asian traders have been forced to leave Uganda as a result of the citizen-only status required for participating in most domestic commerce. On 1 January 1970, Uganda instituted its Trade Licensing Act, reserving to citizens the right to sell specific consumer items and permitting non-Ugandans to trade only in specified sections of principal towns. The government is encouraging Ugandans to engage in trade and to take over the closed shops of noncitizens. Although little financial assistance has been made available, government officials have traveled throughout the country explaining the new Act and helping to resolve the problems of newly established traders and businessmen. The government also is pursuing its Ugandization policy through the Immigration Act of 1969, under which entry permits are issued to noncitizens for periods ranging from one to five years, after which noncitizens will be required to leave.

East African Community Labor Issue

12. Further Ugandization measures are being enforced under a government directive requiring all employers to replace some semiskilled and all unskilled foreign labor with Ugandan citizens by 30 September 1971. By the end of 1970, an estimated 12,000 Kenyans, 20,000-25,000 Rwandans, and an undetermined number of workers from Tanzania and Burundi had already been dismissed. Still more may have left the country voluntarily.**

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* *Before May 1970, both domestic trade and imports were undertaken mainly by private traders, a large proportion of whom consisted of noncitizens. The public bodies that were engaged in domestic trade were the National Trading Corporation (NTC), which also engaged in import trade, the Produce Marketing Board (PMB), and the Dairy Corporation. Coffee and cotton, the two main exports, are marketed mainly through the Coffee Marketing Board and the Lint Marketing Board. The Produce Marketing Board markets tobacco, but other minor crops are exported by private organizations.*

** *The total number of foreign workers is not known but it probably is 80,000 or more.*

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13. The move against noncitizen African labor was intended to reduce Ugandan unemployment and the drain on foreign exchange reserves caused by foreign workers repatriating their wages. The annual repatriation to Kenya alone probably has been about $18 million, or about 9% of export earnings. The foreign workers are concentrated mainly in private manufacturing, food processing, agriculture, and construction. Through the years, immigration was encouraged to alleviate the shortage of unskilled labor, caused by the reluctance of local Africans to abandon subsistence agriculture in favor of wage employment. In recent years, however, the number of Ugandans seeking paying jobs has increased substantially, and the domestic unskilled labor pool now more than meets the country's needs. The foreign influx has continued, however, encouraged by unemployment in the migrant workers' home countries.

Economic Effects of Nationalization

14. For several years prior to the Nationalization Act of 1970, Uganda's economy had grown at an average of roughly 4% per year, only slightly greater than the estimated population growth of about 3.5%. Economic growth fluctuated considerably from year to year, moreover, because of the sharp variations in export earnings from coffee and cotton. Current budget surpluses, which have been an important source of development financing, declined from about $15 million to $2 million from 1966/67 through 1969/70 -- mainly because of stepped-up expenditures for education and administrative services. In the meanwhile, budgeted development expenditures doubled. The foreign trade surplus has been declining steadily, and in 1969, only a sharp increase in net inflow of private capital, resulting from a ruling that commercial banks bring in funds to meet local incorporation requirements, maintained the balance-of-payments surplus (see Table 2).

15. Despite the cautious and reasonable approach adopted by the government in implementing nationalization, sharp fluctuations in economic activity took place during the first nine months of nationalization. During an initial period of local trade uncertainties, an abnormal reduction in imports took

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Table 2

Uganda: Summary of Balance of Payments

Million US $

	1967	1968	1969 a/
Balance of trade	24.9	23.4	17.5
Exports	209.3	208.6	211.7
Imports	-184.4	-185.2	-194.2
Invisibles (net)	-35.0	-26.4	-29.1
Capital (net)	22.7	11.9	33.0
Official	14.6	12.1	18.3
Private	8.1	-0.2	14.7
Errors and omissions	-2.9	1.2	-12.0
Change in reserves	*9.7*	*10.1*	*9.4*

a. Estimate.

place mainly as a result of private traders drawing down inventories. After several months, however, shortages of imported goods plus a degree of renewed confidence in the economy led to a surge of imports. The merchants are also stocking up in anticipation of higher prices as imports of specific commodities are taken over by the government.

16. The government's fiscal position has worsened seriously. With the loss in customs revenues and sales taxes as a result of the decline in imports in May and June 1970, the current budget surplus for fiscal year 1970* was the lowest ever -- about $2 million. Meanwhile, development budget expenditures continue to grow, so that the overall budget deficit for fiscal year 1971 is expected to reach a

* *The Ugandan fiscal year runs from 1 July of the previous year through 30 June of the stated year.*

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record $65 million. Moreover, the government is faced with large expenditures not included in the budget, notably about $3 million to finance the holding of national elections and construction of a $16 million conference hall and hotel for the June 1971 summit meeting of the Organization of African Unity. Recently, the government instructed all ministries to cut expenditures by 20% in fiscal year 1971.

17. Foreign exchange reserves have fluctuated widely, reflecting the swings in imports. On 30 September 1970, reserves had climbed to an all-time high, but by 31 December they had fallen one-third from $67 million to $44 million. Foreign exchange reserves, plus Special Drawing Rights of $5.4 million available since 1970, are the equivalent of slightly more than three months' imports. This level might be acceptable to Uganda were it not for the present uncertainties. In early January 1971 the government instructed commercial banks to tighten credit to the private sector and especially to importers.

18. The uncertainty over the future of private enterprise and the role of noncitizens could have far-reaching implications for investment. Private investors, mostly foreigners, have played an important role in the economy, accounting for about 35% of total investment budgeted under Uganda's two Five-Year Development Plans (1961-71), and future investment from these sources may not be forthcoming without adequate assurances. By itself the application of the 60/40 ownership principle may deter private investment in the future. Compensation has already placed strains on government funds, and the lack of governmental financial resources could constrain new private investment.

19. Uganda's ability to pay the compensation bills for the foreign firms acquired -- currently estimated to be between $84 million and $140 million -- has become increasingly uncertain. The original intention, to compensate the firms out of current profits over a 15-year period, would have imposed little or no strain on the government. The present agreement for repayment within five to seven years, however, will require payments considerably

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in excess of profits, and the government will have to dip into the treasury to meet its obligations. In view of its difficult fiscal situation, the government, in January 1971, returned to its original 15-year payment period in its negotiations with the Standard Bank.

20. Increased participation in trade by government organizations is likely to entail transitional costs and inefficiencies and result in a rising cost of living throughout much of Uganda. Price increases reflecting increased costs already have occurred at the village level because of the decline of the number of Asian suppliers and the imposition of the National Trading Corporation (NTC) as an extra middleman in the distribution of primary products, such as sugar, locally produced cotton textiles, and matches. Villagers complain that prices of items handled by the NTC have risen sharply and that some of these goods are in short supply. On 25 January 1971 an army spokesman listed the lack of basic necessities and rising prices for consumer goods among the justifications for the coup.

Impact of Ugandan Nationalization Measures in East Africa

21. The series of unilateral actions by Uganda undermined confidence in and lessened cooperation among the member countries of the East African Community, particularly Kenya, to some degree. The measures restricting the use of Tanzanian and Kenyan currency in Uganda have generated similar restrictions on Ugandan currency in those countries, and markets along the borders of the three countries have been disrupted. Thus far, however, intra-community trade continues at approximately previous levels.

22. Uganda's restrictions on noncitizen labor have adversely affected both employment and income in neighboring African countries. Uganda acted without consultation and without attempting to mitigate the effects on its neighbors, and as a consequence has created an atmosphere of resentment. Retaliatory measures in kind would have small effect, however, as relatively few Ugandan laborers work in these countries. At present, the impact has been

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lessened by the fact that not all employers in Uganda have complied with the labor directive in full. In many cases the absence of sufficiently trained replacements for noncitizens was considered too damaging to company operations, and foreign workers have been retained.

Conclusions

23. Uganda has either nationalized or is negotiating the takeover of almost all of the more important private businesses, both local and foreign owned, in the country. In addition, the government has limited sharply the economic activities of noncitizens and Asians. In 1970, some tens of thousands of semiskilled and unskilled foreign black workers were repatriated to neighboring countries and their jobs filled by black Ugandans. Asian traders and shopkeepers were harassed, restricted to certain areas of the larger towns, and finally drive out of business in large numbers. Their shops and small businesses were being taken over by local Ugandans with active government support. The government, which already controlled most of the export trade, announced the gradual takeover of all import trade as well.

24. While foreign black Africans and resident Asians experienced considerable hardship and financial loss, the country's economy was largely unaffected. Most semiskilled and unskilled jobs held by foreign Africans were easily filled with only a moderate increase in inefficiency. The displacement of the Asian traders, who dominated the country's domestic commerce, did result in some disruptions and higher prices. The government's reasonable negotiating approach in nationalizing the country's larger private businesses -- some 84 in all, including 24 that were foreign owned -- assured that their operations continued largely without interruption. The government's share of the former private companies was limited to 50% or 60%, and the former owners were given management contracts on generous terms to continue running the businesses. Uganda might well have difficulty in meeting the

repayment schedule for the nationalized businesses, however. Earlier plans to pay for the takeovers out of profits over 15 years were compressed to an unrealistic five years or so. This change implies that some of the payments will have to be made out of general revenues, which are barely adequate to meet normal government expenditures.

25. There is no persuasive evidence that economic conditions or the nationalization policies had anything to do with the recent coup, although high prices and other economic factors were cited by General Amin as part of the evidence of former President Obote's mismanagement. Since the nationalization and ousting of foreign workers and Asian traders was generally popular, it is unlikely that any of these actions will be reversed, although the pace of implementation may slow, and the terms of settlement may be more favorable to the companies concerned.