Briefing

Natural resource management; Governance

Keywords:
China, Uganda, land, sustainability

Issue date
January 2019

Chinese investment in Uganda: new impetus for sustainable development?

Policy pointers

Ugandan government should provide transparent public information about natural resource and land use investments, and effectively coordinate the licensing regime, tracking of business operations, collection of data and ensuring of regulatory compliance.

Ugandan government agencies should protect local rights and ensure free, prior and informed consent for investments by improving and enforcing laws on full investment assessment, land licenses and corporate responsibility.

Chinese companies investing in Uganda should commit to: meaningful community engagement, legal compliance, environmental and social responsibility, full reporting and continuous improvement of their policies and practices.

Civil society should foster continuous dialogue with Chinese investors and government agencies, improve information sharing, push for improvements, and extol good investments and blow the whistle on bad ones.

Chinese investment is flowing fast into Uganda, and spreading into the agriculture and forestry sectors. The government needs to keep pace with these developments so the benefits can be shared by Ugandans. A new analysis shows that, while the jobs and new businesses created are well received, the working conditions and environmental practices of Chinese companies are often poor. Many people evicted from their land to make way for new projects have not been compensated. To hold Chinese companies to account, government agencies, with support from NGOs, must share information about these investments and introduce stronger regulation — in particular to uphold community rights. In turn, Chinese companies must be more transparent, responsible and legally compliant. With a proactive and accountable strategy for Chinese investment management, Uganda could make major gains for sustainable development.

Chinese business interests are going deeper and further into Africa — especially in natural resource-rich countries like Uganda. The scope and scale of China's involvement has become a matter of scholarly and policy debate — and such debate is beginning to recognise the little fundamental difference between Chinese and other countries' investment. Rather, it is the wider range and greater scale of Chinese investments that are worthy of attention (see Box 1). Yet there has been little exploration to date of how Chinese investments are impacting countries like Uganda through use of its land, forests and other natural resources, and thus their prospects for contributing to sustainable development.

China's involvement in Uganda

Encouraged by China's high-profile outward investment policies and programmes, including the 'Belt and Road' Initiative, Uganda's politicians and technocrats have warmly welcomed and encouraged Chinese investment in their economy.[1] Uganda is particularly attractive to investors due to its richness in natural resources, political and social stability, and abundance of youthful labour.[2] In interviews conducted for a recent study (see below), Chinese investors reported that their perceptions of available land, cheap labour and fresh water in Uganda had prompted their decisions to invest there. But what is the impact of this investment on the environment and on Ugandan citizens?

Uptake of opportunities needs swift official management

By the end of 2017, Chinese companies had invested over US$4 billion in Uganda. The government has encouraged this through a range

Uganda's politicians and technocrats have welcomed Chinese investment; but what is the impact on the environment, and on citizens?

of incentives. To stimulate such investment in the forest sector, the Uganda Investment Authority has published business opportunities ranging from establishing softwood plantations to investing in value-added wood products, ecotourism and health products. Incentives for further investment have also been signalled by having more land available on the open market and through policies such as: tree planting permits issued in forest reserves, a sawlog production grant scheme and tree planting through carbon sequestration schemes. While some Chinese companies have taken up these opportunities, to date they are few.

Although public sector agencies such as the Uganda Investment Authority and the National Forestry Authority track some investment trends, none take responsibility for collecting comprehensive data on Chinese companies and investments that impact on Uganda's natural resources and land use. There is no apparent mechanism for effective coordination of the licensing regime, tracking of business operations, collection of data and ensuring of regulatory compliance.

Assessment of investment impact

Over a three-year period, a situation analysis was developed by a team led by Ugandan think tank Advocates Coalition for Development and Environment (ACODE), with support from IIED. The analysis focused on the scale and type of Chinese investment in Ugandan land use (see Figure 1) and issues arising for local livelihoods and sustainability. This was prepared as an initial review to prompt dialogue, then as a report.[3] The researchers undertook detailed case studies on Chinese investment practices in the agriculture, forestry and roads sectors, and assessed their impact on the environment and local livelihoods.[4,5,6] Owners of Chinese businesses, employees, people in local communities, local leaders and others involved in the respective sectors were also interviewed.

Once the analysis was ready, the researchers invited a range of type and size of Chinese companies to participate in a series of dialogues with NGOs and government agencies, based on the independent analysis of their practices.[7,8,9] In addition, a group of Chinese companies jointly produced a 'responsible investment report' that stimulated further debate. During the dialogues, the government clarified policies to encourage more socially and environmentally responsible investments, and policies to prevent investments on environmentally inappropriate lands. Commitments to social responsibility were also made by six Chinese companies with land use investments. The process revealed the important role of the Chinese embassy, who ACODE continues to work with along with other stakeholders, to ensure that commitments are acted on. Some of the key findings of the analysis are outlined below, followed by recommendations.

Investment brings new livelihood opportunities. By the end of 2017, 18,000 jobs had been created by Chinese companies for Ugandans. Many companies have a majority Ugandan labour force — most over 95% — and community members, employees of Chinese companies and local leaders interviewed welcomed this. Local food vendors have also increased their incomes by selling food to workers engaged in Chinese infrastructure and agribusiness development. Ugandan landholders have started growing rice in plots near Chinese rice growing businesses, as the latter provide a ready market for their rice. Constrained from accessing further land themselves, the Chinese businesses encourage this by offering free training to local farmers on rice growing.

Widespread poor working conditions. Most Ugandans working for Chinese companies are employed on a casual basis. Unlike Chinese employees, local employees — including those in supervisory positions — tend not to have formal employment contracts. Local workers are often not equipped with adequate protective gear such as boots, gloves and hard hats. The working and living conditions of junior Chinese employees are also far from luxurious. Many also lack protective gear and may live for months in shipping containers with little but their beds. Many employees interviewed called for better and safer working conditions.

Box 1. China in Uganda: some notable features of trade and investment[10]

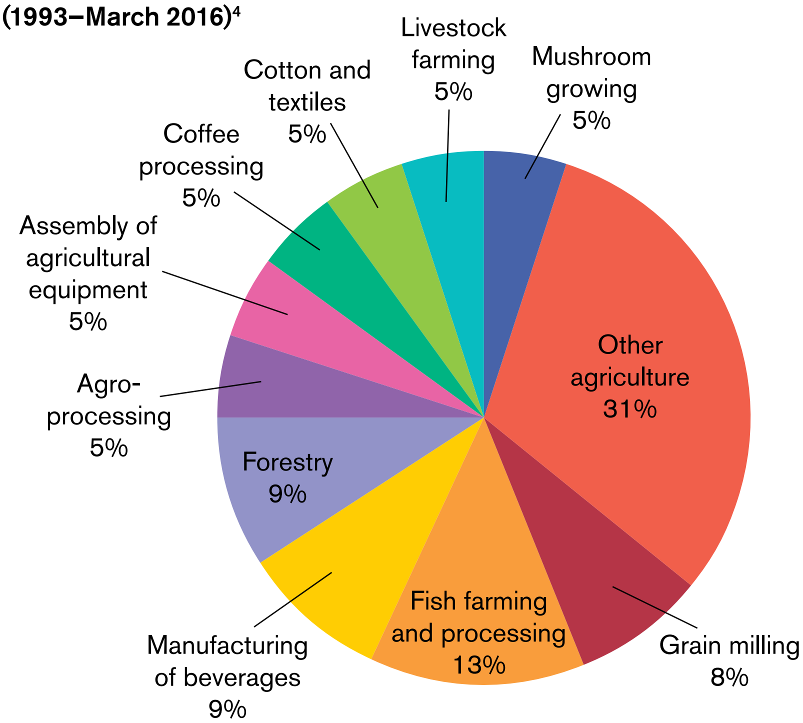
- US$4 billion: China's foreign direct investment in Uganda — more than any other country
- Four top Ugandan exports to China: grains, animal skins, coffee and tea
- 18,000 jobs created for Ugandans by Chinese investors
- 22 Chinese companies licensed in mining and quarrying, and 20 in agriculture and forestry
- Five industrial parks developed with Chinese investment
- Two large dams and hydropower plants: Karuma and Isimba
- Three big road construction projects, including Kampala-Entebbe 'expressway'
- Development of oil fields in the Albertine Rift.

Harmful environmental practices. Chinese investment is leading to a number of practices that are detrimental to the environment. For example, it is not clear to what extent Chinese companies check the legality of wood used in development projects. Among those investing in wood processing there are some companies who allegedly purchase and use timber from immature trees and illegal sources. Some Chinese investors have acquired land in fragile ecosystems such as wetlands, lake shores and river banks. Under Ugandan environmental law, this land should not be available for industrial uses, or should be protected through carefully monitored management plans. The interviews also suggest that the effects of water-intensive processes such as irrigated rice production have not been properly anticipated and planned for. Intensive water extraction from water sources, and fertiliser and chemical run-off into lakes and rivers, can deplete or pollute the water available for local communities.

Failure to compensate those evicted from land. Some large development projects have resulted in local people being evicted from land they were occupying. If their occupation is legitimate, they are entitled to compensation but delayed or minimal compensation is common. As a result, there have been several conflicts over land and disruptions to projects. While the legal responsibility for effecting compensation is clear, the study found that in practice neither the government, nor the landholders (if not the government), nor the investors are prioritising land-related compensation. In some instances, this has meant that local elites have been the sole beneficiaries of partially implemented compensation arrangements.

Limited social and environmental corporate responsibility. In recent years, Chinese companies operating in Uganda — large-scale public works contractors, bigger businesses and smaller companies — have taken significant steps in both exercising and publicly reporting on their social responsibility. This has typically taken the form of: providing medical care services; donating equipment to schools, including computers; giving construction materials and protective wear to public agencies such as the Uganda Police Force; sponsoring sports events; and supplying seedlings and information on management practices to farming communities that neighbour their agribusiness operations. To date, these initiatives have tended to be ad hoc projects and gifts with little indication that the companies have established or maintained community engagement: a prerequisite for developing the long-term constructive relationships on which such responsibility depends.

Figure 1. Licensed Chinese land use investments in Uganda (1993–March 2016)[4]



There are many practical steps the government can take to manage China's involvement in Uganda. In return, Chinese companies need to act decisively to improve the working conditions of their employees and to operate in more environmentally and socially responsible ways. NGOs can help strengthen both public and private sector actions.

Ways forward for government, with NGO support

Share information about and with Chinese businesses:

- Digitise Uganda's company registry and investment licences database and make it available online, so that citizens can see who owns companies and who holds land and resource extraction licences
- Provide accurate estimates of social and environmental costs and risks of large construction works so that bids from contractors and investors can be responded to appropriately
- Provide sector-specific guidance on expected investment practices and make this available in key languages, including Chinese.

Dialogue with and incentivise Chinese businesses:

- Establish an inter-agency working group on Chinese investments
- Establish a coordination desk for Chinese investors

- Design an incentives package to reward responsible investment practices, particularly among small- and medium-size companies.

Regulate Chinese businesses:

- Rigorously monitor data collection and compliance with investment and environmental practice agreements
- Set and apply a realistic timeframe for approval of compliance with environmental impact assessments and other routine environmental requirements
- Apply sanctions where necessary to ensure Chinese companies take greater responsibility for the social and environmental impacts of their investments.

Uphold community rights over land and resources:

- Investigate and improve land market and land acquisition procedures to curb corruption and increase accountability — especially the role of brokers and holders of secondary rights to land
- Ensure that landowners, including customary landowners, are properly consulted about investments through the principal of free, prior and informed consent before they start
- Make timely and appropriate compensation to those who make way for investment projects
- Refrain from passing legislation or constitutional amendments that undermine landowners' fundamental rights to property.

Ways forward for Chinese companies, with NGO support

Strengthen transparency and dialogue:

- Meet regularly with sector-specific government agencies and civil society organisations to exchange information and discuss progress and challenges
- Report publicly on: plans and operations, payments made to government agencies and issues regarding corruption, wrongdoing or harmful practice
- Pledge/commit to government and citizens that bribes will not be paid for services that should be free of charge.

Strengthen compliance and commitments to social and environmental responsibilities:

- Conduct careful due diligence to ensure that licences acquired are obtained legally through due process
- Establish and maintain specific mechanisms for community engagement and through them develop and implement community development and environmental protection activities
- Implement best practice health and safety standards, and working conditions of employees.

Future priorities

Investment from China can provide opportunities to harness Uganda's land and forest resources in productive and sustainable ways. To reap these benefits, Uganda needs to respond to the challenges this investment brings and build on recent progress. Key priorities are: developing and deepening the dialogue between all stakeholders involved, extending corporate responsibility reporting to all Chinese companies and developing the investment frameworks overseen by the government's investment agency that are starting to demonstrate improvements in sustainability. The rapid growth in the small-scale Chinese business sector could help accelerate Uganda's sustainable development — provided the sector is effectively managed, transparent and made accountable for its policies and practices.

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Knowledge Products

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Advocates Coalition for Development and Environment (ACODE) is a premier think tank striving to make public policy work for people through research, civic engagement and evidence-based advocacy.

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ISBN 978-1-78431-650-1

This research was funded by UK aid from the UK Government, however the views expressed do not necessarily reflect the views of the UK Government.

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Notes

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