

PRINCIPAL CONSTRAINTS TO PRIVATE SECTOR GROWTH IN UGANDA FOR ATTENTION OF BUDGET 2010/2011

1. Transport and Energy Infrastructure

Transport

The focus should be on all major transport systems to quickly open up less costly transport options for traders and local manufacturers. This would involve revamping the national rail transportation system; fixing potholes, traffic jams and ensuring better access to agricultural productive areas; developing the water ways and port container terminals as well as minimising air transport and handling charges.

Energy

Reliable and low cost power supply to industries as well as convenient access to affordable basic production inputs needs to be ensured.

2. Labour productivity and skills

Low productivity of our human resource is a key hindrance to private sector competitiveness across all sectors. This is due to lack of technical and vocational skills especially in the middle and lower level managers who are key in the production process relevant to private sector development

3. Lack of Affordable Business Finance

Accessing affordable business finance continues to be a hindrance to reducing the cost of doing business in Uganda. The high cost of accessing business finance (now between 18% - 23%) has continued to increase the cost of doing business and the unsustainable growth of MSMEs in Uganda. In addition, many MSME's lack collateral and capacity to secure credit from the existing commercial banks.

4. Uncompetitive Business/Regulatory Environment

Growth of businesses in Uganda today is mainly affected by high regulatory costs especially in the areas outside Kampala. The major costs of doing business are incurred at inception and they include: registering businesses, transferring property, obtaining tax clearance and an operating license. For example, in Uganda it takes 18 procedures and 25 days to start and register a business whereas it only takes 2 procedures and 3 days in Rwanda¹.

5. Tax Policy Concerns

The compliant tax payers in the Private Sector point out high taxes as a major driver of the high cost of doing business in Uganda today. The dissatisfaction by the Private Sector arises from the fact that there is no tangible value for money from the taxes paid to government. Other concerns include the narrow tax base, lack of tax parity and double taxation issues.

6. Regional Integration Process

The Common Market is likely to challenge Ugandan firms through increased competition within the region. The end of the five-year transitional period coupled with persisting non tariff barriers implies additional costs in terms of input taxes thus the need to put in place measures to ensure that these changes do not significantly impact on the output prices and/or narrow profits.

7. Weak Institutions, Poor Budget Discipline and Corruption

Government's implementing institutions charged with supporting Private Sector growth continue to be limited by resource constraints in ensuring quality, efficient and effective delivery of services. Budget Discipline and Good Governance should be core values upheld by public servants across Uganda for purposes of ownership and responsibility of public resources. Procurement related corruption and fraud continue to be a major deterrent to timely execution of public resources in Uganda today

¹ World Bank Business Competitiveness Report 2010