PRIVATE SECTOR FOUNDATION UGANDA
Your Partner in Private Sector led development

PRIVATE SECTOR PRIORITY ISSUES FOR 2011/12

PRESENTED TO

Hon Syda Bbumba
MINISTER OF FINANCE, PLANNING AND ECONOMIC DEVELOPMENT

BY

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A. Introduction[1]

The Private Sector in Uganda remains largely underdeveloped with the majority of businesses concentrated in the Informal Sector. This has constrained the tax base with Tax/GDP stuck at 12.8% for several years. This calls for prioritizing allocation of resources to areas that contribute to the reduction of cost of doing business and creations of wealth such as; Investment in Roads, Energy, Agriculture, Health and Education (skills).

Macro Environment

- Inflation – now at 14%; on account of Commodity and fuel prices
- Interest rates – still as high as 20%
- Exchange rates - only slightly dropping from Shs 2400/USD
- Level of unemployment – causing negative effects on the political and economic climate
- Export diversification - still limited to only a few exports

B. Principal Constraints to Private Sector Growth in Uganda for Government to address

The Private Sector commends Government's efforts to address constraints to Private Sector Development. These efforts need to continue particularly in the areas below;

1. Infrastructure:

Energy: The cost of electricity has increased by 206% from 108.85 UGX/kwh in 2005 to 333.2 UGX/kwh in 2010. Meanwhile the supply is erratic with surges not appropriate for production. This continues to increase the cost of doing business especially in light of regional integration.

Roads: The road net work though improving still require adequate linkage of raw material supply to production and then production to the market. While UNRA continues to do a good job, DUCARs roads are required to support productive areas especially the Tourism circuits and rural (agricultural) areas. (Specific priotised roads required are in the 2011/12 PSFU Platform for action.

The implementation of the major trunk/ feeder road linking the production sectors in the country to better markets is still low despite the allocation of 1.3 trillion shillings; the increased traffic jam into the Greater Kampala Metropolitan Area leads to reduced productivity[2] and competitiveness. Lastly the Jinja dam bridge is the gate way to the sea and requires repair. Any further damage which may result in the closure of the road may cost the private sector and the economy dearly. We are happy that Government is already working with the Japanese on this.

Railways: It is estimated that access to the sea through the railway can reduce the transportation cost from 129USD per ton to about 40USD per ton, but also help reduce the stress/load on the roads. The internal railway network (Tororo-Pakwach–Sudan and Kampala-Kasese) can further reduce the local transport costs. The rail from Mombasa to Kampala require a standard guage which should be budgeted for in the short term;

Air transport: Entebbe remains unattractive to regional and international airlines because of the costs related to it compared to Jomo Kenyatta Airport. Some of the areas which could be considered to improve the competitiveness include

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[1] See the PSFU 'Platform for Action' policy document for a detailed analysis of the key competitiveness challenges and barriers to economic growth in Uganda. Reference has also been made to the Global Competitiveness Reports of 2007, 2008, 2009 and 2010.

[2] *Labour spends 3 hours every day on the jam and for 6 days that is 18hrs a week. 2 days equivalent of labour productive time is lost every week in Kampala Jams.*

- Expansion of the airport
- Reducing the Fuel levy , currently at 5 US cents per litre of Jet A1 Fuel;
- Reducing handling Charges, (currently CAA receives 10% per kg);
- Reviewing landing fees for Cargo Planes, charged based on the weight of the Air Craft
- Reviewing the Security Surcharge which is Currently 14 cents per kg.

Uganda has remained without a designated carrier and has not enjoyed economic externalities which come with this like Tourism promotion, cargo export support especially in the perishable goods sector (Fruits and vegetables, Flowers, fish etc). Can government require that official travels shall be with Air Uganda except when it is unavailable?

Water transport: Critical for providing cheap alternative routes within East Africa for efficient trade facilitation. The three vessels: MV Pamba, Mwanga and Kaawa are not yet rehabilitated (burgers are still lacking) and MV Kabalega was not insured at the time of the accident. These vessels should be rehabilitated and insured. Moreover the lake is not fully mapped to support navigation.

ICT: The laying of the fiber optic cable within Uganda is not yet complete and the connection with the submarine fiber optic cable in Mombasa to link Uganda to the rest of the world so as to drastically reduce the cost of data transmission is yet to be achieved. This is affecting the Business Processing outsourcing opportunities available in the country. The budget ought to cover this as well. The medium for which ICT can be accessed, used and taken advantage of like the computers are already tax free. The Mobile telephony is now proving to be the best medium for which ICT related products and services will be delivered and yet the penetration in the country for this purpose is still very low. The cost quality handsets remain high partly because, VAT on the mobile handsets is still being charged in Uganda. The neighbors of Uganda are not charging VAT, ranking it high on the most smuggled goods. The budget could consider reviewing this.

Recommendations

- Ensure the Construction and completion of Bujagali is on course and fast track the development of the 700MW Karuma and the 100MW Isimba Hydropower projects;

- Pursue in the EAC Framework, the revampment of the rail route from Dar es salaam – Mwanza –Port-Bell for purposes of providing alternative means of accessing the Sea and urgently develop Port-Bell and Jinja pier;

- Facilitate the railways to **resume** operations and embark on the process to expand the railway gauge to Mombasa to increase turnaround time and lower transport costs from about 129 USD/ MT to under 40 USD/MT

- Connect railway to southern Sudan (Kenya is about to implement construction of a direct railway link, this may disadvantage our business advantage); Urgently repair Tororo-Parkwach and Kampala- Kasese railway lines;

- Fast-track the implementation of identified roads for reconstruction and rehabilitation particularly those facilitating activities of the private sector e.g connection to support tourism-like Kayunga – Wobuenzi, Kisubi – Kasanje – Mpigi, Ishasha – Bwindi, Bwindi – Kisoro and Murchison falls – Kyenjojo; Prioritise the dualization of the Kampala – Jinja Highway and the construction of the Kampala-Entebbe Express way;

- Expedite actions to decongest greater Kampala Metropolitan area to enhance productivity by implementing elements of Kampala Rapid Bus project including resumption of train town services to town like mukono. Continue with stay of application of CET to ensure heavy duty transport trucks are duty exempt;

PPP Policy

- Expedite the completion of the PPP legislations to help define the roles and responsibilities of both government and the privates sector in PPP projects.
- Support the laying of fibre optic cables to the whole country and develop the capacity of government to provide and deliver most of the services with the help of ICT so as to provide efficient delivery of service and also reduce administrative expense characterised with physical presence nearer to the population.
- Urgently support the skills development for ICT Practical use championed by NITA and Private Sector ICT.
- Consider improving the affordability of Telecom and ICT services in Uganda through making the hardware for ICT to become more affordable. Consider and remove the VAT on the mobile handsets as in Kenya and Rwanda.

2. Labour Productivity and Skills Development:

Low productivity of the human resource is a major hindrance to private sector competitiveness. This is due to lack of technical and vocational skills amongst the middle and lower level managers who are critical in the production process. The EAC Integration process shall demand more skilled labour for us to compete. Retooling current businesses with skilled persons and also creating a base of young skilled labor force for the future is important and requires a clear MSME policy to be completed and implemented. The oil sector will require specialized skills. Therefore, there is need to institute measures to address the current mismatch between the trends in skills attainment/development and skills requirements.

Recommendations

- Review the education system and increase investment in skilling and vocational training; Set up an independent directorate to specifically focus on BTVET, which shall also coordinate skills development across all sectors;
- Equip schools/universities with laboratory equipment to promote science subjects; Develop a programme to support internships through industrial attachments and apprenticeships; Extend tax credits to manufacturers currently incurring costs to train technical staff, which costs are incorporated into the production costs;
- Revamp training institutions in the various sectors aligned to Government ministries so that they are run together with private sector participation with special interest in construction, tourism, agriculture, ICT and oil sectors;
- Set up a certified national instructor training institution, running parallel to the Nakawa based Vocational Training Institute, with a mandate to enhance the quality of instructors; Ensure that DIT and NCDC regularly engages the private sector to develop up-to-date/relevant national and sectoral curricula.

3.Cost of Business Finance

The cost of money has been and remains a major challenge in the growth of the private sector. Access to business finance is limited especially for MSMEs and long term financing for both agricultural and industrial development. The establishment of the CRB alone cannot bring down the cost of money. Instead the cost is projected to rise even higher on account of higher yields on Treasury Bills. The New Bank regulatory requirements require banks to raise their share capital to UGX 25BN by 2013. though, in effect stabilises the financial sector, the concern however is that this new capital is to attract withholding tax. This may increase the costs of bank operation and may not help in reducing the interest rates charged to the Private Sector.

Recommendations:

- Waive the requirement to pay withholding tax funds banks have to raise for the new share capital with Bank of Uganda;
- Finalize the Pensions Bill to avail more resources for long-term financing to investors; Amend the 2009 Stamps Act to provide for a lump sum charge of 5,000 instead of the 0.5% charge on the value of security;
- Improve infrastructure to reduce Bank overheads emanating from establishment of rural branches and;
- Fast-track the enactment of the Shuttles Securities Bill to allow for use of other collateral other than land for borrowing;
- Amend the 2009 Mortgages Act to make it easy for financial institutions to recover assets in case of default and;
- Ensure wider regulation of the financial services sector by amending the 1991 SACCO Act to provide provisions of monitoring of unregulated financial service institutions;
- In line with global best practices Enact the Anti Money Laundering Law (AML)

4.Tax Policy

Tax should not be a burden for the very few tax compliant firms. Currently 30% of businesses tax payer, pay over 90% of taxes. The tax should also be affordable, not duplicated and ensure that the business continues to operate. The rule of thumb is that taxes with an effect of increasing business costs and creating an un-levelled field should be avoided. The management of tax from the development to implementation should also be transparent and involving the tax policy department; URA and Tax Payers.

Based on the above the following taxes are of concern and require reviewing;

- PAYE threshold: Uganda's threshold is the lowest in the region making the cost of labour for Uganda to be highest. Uganda threshold is 65 USD. Kenya is 150USD and Tanzania is 85 USD. This threshold which was determined in 1996[3] need to change to reflect the growth of economy and the REAL VALUE and must not make Ugandan producers pay more to sustain the same level of productivity of workers and their motivation;
- multiple taxes and charges with similar effects exist for example the surcharge tax on vehicles older than 8 years and UNBS pre-inspection charges all aim at ensuring that old vehicles which are environmentally unfriendly are not dumped in Uganda;

[3] *Exchange rate in 1996 was 870 shilling per USD and today it is 2200 shilling for a USD representing 253% increase.*

- VAT threshold has remained at 50Million for a long time and not reflecting the growth of the economy. As the shilling strengthens against the USD computation of taxes based on the exchange rate changes increase the REAL TAXES and costs of imports of merchandize and raw materials;
- Corporate Taxes for listed companies in both Tanzania and Kenya are at 25% while for USE it is at 30%; Withholding Taxes on dividends for listed companies in Uganda is 10% while Kenya and Tanzania stands at 5%. These need to be harmonised.
- And lastly taxation in Uganda tends to be focused only on formal business without making attempts to widen the tax base to include informal business[4]. This is a disincentive for formal business. Also decision of tax policy is so centralised to tax Policy department this may not be transparent and is not consistent with good practise where such decision is more collective.

Further Recommendations:

- PAYE threshold be increased from 130,000/= to 250,000/= for a start and in subsequent years the increase should be based on and determined by the increase in Economic Growth and Inflation rate;
- VAT threshold be increased to Shillings IOO million; VAT rate be harmonised within the region;
- Implement the national Identifier project to improve records for national and residents to support tax compliance;
- Explore the possibility of URA working together with the private sector in assessment and collection of rental tax;
- Government should consider an alternative turnover (presumptive minimum) tax and establish it in such a manner that provides incentive for compliance and firms to operate in a formal manner;
- consider and drop either the surcharge tax on vehicles over 8 years or the UNBS pre-shipment charges for the same; Amend the 2009 Stamps Act to provide for a lump sum charge of 5,000 instead of the 0.5% charge on the value of security;
- Maintain CET-Duty exemption of industrial spare parts and all other crucial raw materials and inputs; create tax policy advisory mechanism to oversee tax policy development and implementation with checks and balances

5. Business & Investment Regulatory Environment:

These lead to high cost of doing business and include; High and complicated regulatory and licensing costs and requirements in starting, operating and closing business ; Laws to improve business still pending including the one to curb Counterfeits; Investment incentives not comprehensive enough to encourage rural development . For example the Land Registry is still not yet fully automated despite progress in computerization through the PSCP II project, the following challenges still remain at the registry; limited Office Space, lack of adequate personnel to handle the volume of work at the registry, lack of adequate financial resources, unregulated and unlicensed land agents and, unethical conduct of some professionals. The Private Sector has also reported that in some cases investment incentives are discriminatory like the waiving income tax

[4] *PSFU has carried out a study which proposes measures to widen the tax base in Uganda*

for NEW companies in agro processing established outside a radius of 30 Kilometres from Kampala without extending the same to old companies or at least new investments in the old companies. This distorts competition.

Recommendations:

- Require that for any new bills introduced in Parliament there must be an accompanying Cost – Benefit analysis to business and society
- Remove bad laws and regulation; improve procedures to ensure efficiency and enact priority commercial bills into law and have them implemented;
- Promote growth of capital investments by reducing corporate tax for firms that list on the Uganda Stock Exchange from 30% to 25% ;
- Fast-track the completion and enactment of the counterfeits Goods Act and other 16 commercial related laws;
- Government should contract private lawyers to expedite the completion of the impending commercial laws;
- Initiate policy to de-regulate un-competitive regulation, streamline and simplify relevant regulations and licences including decentralisation of issuance to ease start-up , operation and closure of business;
- Ensure the full operation of URSB (COMPANY REGISTRY) by designating a vote for this purpose;
- Include OLD firms especially those with new projects which add value to agricultural products and are located at least 30 Kilometres outside Kampala;

6. Public Procurement to support Development

SME's contribute more than 80 percent to national income but their participation in public markets remains minimal. The biggest challenge to SME participation in public tendering is the perceived lack of transparency in public tendering processes. Supporting the local private sector to participate effectively in public markets would result into better use of factor resources through increased production and productivity; increased employment; saving of the country's foreign exchange and would ultimately make it easier for Government to identify and address the supply side constraints faced by the private sector.

Government expenditure through the budget creates the biggest opportunity for business compared to the export market and other internal markets. The opportunity for government to stimulate the private sector is therefore immense. The private sector currently believe that any tender issues for procurement is tainted with corruption making genuine business persons to only concentrate playing a sub contraction role. This situation is more pronounced at the local government. Transparency is not as expected.

Proper use of procurement could give a quick window to increase the tax base and as mentioned earlier develop the private sector. The 7,000,Billion shilling expected to be directed to wage expenditure may attract only 6% in withholding tax, but if the PSFU can work together with URA and PPDA with the support of MFPED to implement a transparent, pro-local, procurement regime taxes could improve substantially.

The current procurement plan advance delivery could be the starting point and PSFU would support advertisement of business opportunities to the private sector so they can plan for it and make the necessary applications. Then after procurement has been done, the beneficiaries are advertised and this will not only bring them in tax bracket but the transparency method may weed off those who secure contacts and are not genuine business operators. In the long run, we believe genuine business persons will win the tenders and also be able to pay all related taxes to Government.

Recommendations

- In line with both the Trade and Industrial Policy, Consider applying a 15% price differential to local companies in public sector tenders. This way, the local contractors will be able to compete for big contracts. This price differential is already in countries like Kenya and Tanzania;
- Institute meaningful engagement and dialogue with relevant bodies in respect of the issue of Bid Securities, Insurance, and bank products. For instance a carefully developed "Invoice finance" service would substantially reduce the problem of delayed payments;
- Through the PPDA, build capacity for the private sector suppliers to be able to supply high quality products at competitive prices on time; Support PSFU in mobilizing the private sector into supply groups (cooperatives) to be able to check quality and increase supply volumes;
- Promote by the use of incentives or regulation, the opportunities for sub-contracting to small enterprises;
- A more transparent process which ensures that procurement serves a development function be established and managed among PPDA/URA/PSFU with support from MFPED and Local government
- Amend the PPDA Act , to allow for preference for local products which are of quality.
- Through budget instrument and administrative measures ensure that preferences are made in purchase of Ugandan made goods and services provided by Government.

7. Agricultural Development

It is also vital to note that Uganda's Agricultural Sector employs over 77% of the population, with 75% of Uganda's 3.13 million households engaged in agriculture, while an estimated 68% derive their livelihoods directly from the agricultural sector[5]. But sad to note is that, in spite of heavily capitalized programs like National Agricultural Advisory Services (NAADS) for the past ten years, the agricultural sector has lagged behind registering a growth of just 1.3% growth. There is need to improve coordination among stakeholders to make this programme more relevant to Agricultural value chains. Specific challenges include;

- Storage facilities:
- Access to affordable, predictable and reliable financial services:
- Water for production
- Water for animals
- Disease control

Recommendations

- NAADS program be restructured to in such a way that it is market led; with stakeholder involvement (lead entrepreneurs, farmers, banks, researchers, Insurance, infrastructure developers, regulators, extension staff, policy developers etc) collectively agreeing on the product and sector development strategy which is then monitored and interventions well target and not scattered.;
- Invest in Warehouse receipt systems in major grain producing districts and regions to keep farm products safe and ready for market;
- Ensure availability of adequate storage facilities at sub counties and mainstream functional warehouses to avoid post harvest losses as well as improve commodity pricing; Institutionalize a special agricultural bank for farmers;

[5] UBOS (2005), population and housing census (2002), UBOS (2007), these estimates from the survey showed that there were 4.2 million agriculture households, constituting 78.8% of households in Agriculture

- Increase the agricultural finance facility to 120 Billion UGX and review the MoU with commercial banks to ensure that the MSME's benefit from this facility;
- Consider replicating such a scheme to provide for credit for industrialization at interest rate not more than 10%;
- Make a provision for Water for production and animals as well as disease control

8.Oil and Gas Exploration and Development The recent discovery of oil and gas in Uganda presents new opportunities through energy access and increased oil revenues that can be instrumental in driving sustainable growth and development and poverty reduction. However, oil revenues, even when well used (Infrastructure, human resource development and research) is still expected to cause the shilling to appreciate by at least 25%. This will require that other non- oil sectors should improve their competitiveness by the same margin of 25% to remain at the same level of competitiveness. If this is not achieved, there is a risk of imports eroding the gains being made and planned in other sectors especially agriculture and industry (The Dutch disease). It is therefore important that we remain focussed on diversifying the export base.

Recommendations

- Expedite the enactment of the Petroleum Bill, 2010 to regulate and guide the anticipated oil production; involve stakeholders in policy development, be transparent in contracting, legal formulations and commit funds to develop appropriate infrastructure.
- Commence the development of skill required urgently.
- The state should take leadership in the sector to ensure proper governance and control, while ensuring ethical and transparent use of the oil resources;
- The competiveness of the other sectors of the economy should be a priority and handled expeditiously.

9. Tourism

Tourism is the fastest growing industry with the highest trickle-down effect in the world as compared to other sectors including Oil and Manufacturing. Despite efforts by Government to support the tourism potential in Uganda, there are a number of challenges which still stifle the steady growth of the sector. These include, among others: poor road networks in the main tourism circuits; inadequate technical skills for tour guides and hotel staff; inadequate electricity supply and internet connectivity in the major tourism destinations, inadequate accommodation coupled with uncompetitive hotel charges and ungraded hotel facilities, Uganda's bad/poor image in the international tourism market; lack of an operational tourism policy to guide development of the sector; a 17% VAT levied on Safaris to Uganda, among others

Recommendations:

- Fully implement the Tourism Act with priority focus on improving competitiveness of the sector, also, fast track the implementation of the Tourism Sector Policy to guide its operations and fully realize its potential;
- Under a PPP approach, Government should consider buying shares in Air Uganda and get the airline fly the national flag.;
- Upgrade roads supporting the Tourism industry expeditiously, more attention ought to be on the following; Kampala – Mityana, on the Kampala– Kasese highway that connects to the western tourism belt; the Katungulu – Kihiihi – Butogota – Bwindi – Mgahinga route; the Kibale – Kasese – Rwenzori road; the Fortportal - Semliki road; Fortportal – Kibaale road, the Bwindi – Kisoro

road, the Kihiihi – Rukungiri and Kihiihi – Kanungu – Kabale roads, the Ishasha – Rukungiri; and the Mobuku - Rwenzori route;

- Develop a branding and marketing drive for Uganda's image with a view of improving the tourism sector, this can be on the basis of Public Private Partnership;
- Further Encourage domestic tourism, as a first step to promoting tourism in the country; Increase funds to the Uganda Tourism Board for Uganda to be promoted ably-Tourism Fund

10. Regional Integration Issues:

The integration brings with it advantages to the private sector. However these benefits need to reflect a win –win situation. The EAC Treaty commits itself to establishing private sector driven economies. It therefore follows that policies need to support the private sector, who should also be part of not only the negotiation process but also the implementation process.

As much as the Common Market implementation began, the implementation process in Uganda has not been fully mainstreamed in the action plan of various ministries

COMESA FREE TRADE AREA:

The challenges which made Uganda not join the FTA is mainly because we were implementing a transition period with Kenya but this has since ended. Also the benefits Uganda could get for join FTA is being missed in countries like DRC and Sudan. There is need to join the COMESA FTA but with protection of the products which are categorised sensitive in the EAC

EAC/ COMESA/ SADC FTA;

The EAC Summit has directed that a free trade area be negotiated in the three REC's above. Though this is exciting Ugandan private sector should pay attention to the rules of origin and how it will be managed given that EAC/ COMESA rules of origin tend not to be the same. This should be negotiated well given the structure of our economy, investments pattern and product sensitivity

Recommendations

- Build UNBS capacity to improve quality, standards and hygiene at the market place
- Build supply-side capacities – NAADS, Storage capacities, Support for value addition
- Remove of Non-tariff barriers
- Collaborate with regional governments to build cross border infrastructures
- Fast track enactment and implementation of the Pyto-Sanitary Policy to improve standards; Uganda list of raw materials and inputs be extended for another three years subject to review of what is still relevant today; This can be phased.
- Expedite the industrial strategy to ensure that policies (such as the Kampala agreement) which encourage production based on comparative advantage of respective partner States. Government should strive to facilitate investment in strategic sectors and areas in partnership with private sector; Expedite harmonization of Standard from the current 1080 to the over 5000 standards expected.
- Review the target of implementing the EAC Monetary Union to a period when we have achieved the monetary and fiscal policy harmonisation and the Common market is working effectively.

- Implement all the recommendation sighted earlier since they support the private sector to compete and therefore participate effectively in the integration process. An implementation framework should be in place.

11. Budget discipline and Implementation of agreed policy reforms

Every year Government makes commitment through the budget speech but does not fully implement them. Efforts have been made in the recent past to put in place Budget monitoring unit in MFPED and more lately the NPA has established a mechanism of monitoring implementation of the National Development Plan. The Prime Minister's office has also established a monitoring mechanism so is the office of the President through the Economic Monitoring Unit. Despite all these, the service delivery is still lacking and plans of government are not being fully implemented. Some of the examples are issues related to; the pension scheme, Commercial laws; replacement of the MV Kabalega, NAADS implementation, Road construction, the supplementary budget of over 600 Billion for mainly Public Administrative expenditure etc. All these point to budget discipline and policy predictability and there investment confidence.

C. Conclusion

The business community highly anticipates that Government shall give due consideration to the issues raised above. Particular attention needs to be given to the rising cost of doing business in Uganda, which is crowding out the existing businesses and prohibiting further investment growth. It is the feel of the business community that planning, budgeting and implementation of economic development strategies should focus more on productive and less on consuming sectors if we are to attain the investment, employment and household income levels as projected by the National Development Plan. The detailed Private Sector policy proposals have been spelt out in the *Platform for Action* document.