Private Sector priority issues for 2009/10 FY Budget

Presented to Minister of Finance Planning and Economic Development
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A. Introduction[1]

In the last two decades Ugandan's economy has been termed as robust and characterized by high macroeconomic performance. Inflation was at single digits, foreign exchange rates generally stable, Interest rates though high have been steadily declining in a predictable manner and the growth steady at 7-9% despite energy and other infrastructure problems which increase costs of doing business and make Ugandan Private Sector uncompetitive. In the last 7-9 months Ugandan Private Sector has however noticed a change in the macroeconomic performance with inflation at double digits, very unstable foreign exchange regime, and increasing interest rates with an unpredictable pattern. Economic growth is predicted to slow down[2].

At the regional level the EAC Customs Union is expected to enter full force with internal tariffs eliminated come 2010 and the EAC Common Market is expected to come into force in the same period. The exemption of the implementation of the EAC Common External Tariff of selected Ugandan industrial inputs and raw materials referred to commonly as the "Ugandan list" will cease to exist. This is against the background of an uncompetitive environment and is a cause of concern as some companies[3] have started relocating their major value adding units to Kenya and only leave the marketing function in Uganda. The high cost of doing business is further highlighted by Uganda's global Competitiveness ranking for which we have slipped continuously from 113th out 175 countries in 2006, to 120th out of 178 countries in 2007 and in 2008, 128th out of 134 countries.

Both the integration and the impact of the Global Financial Crisis despite challenges posed, also bring with them opportunities for which the Private Sector would like to harness and take advantage of. This process will require Government support through appropriate policies and resource allocation. It is on the basis of the above that the Private Sector articulates the priority areas for Government policy and allocation of resources for the period 2009/10. This position has been arrived at after wide consultation with all sectors, a synthesis and prioritization of issues.

B. Prioritizing National Resources

The Private Sector 2009/10 budget proposals to the government highlighted the importance of the sector's involvement in the planning and allocation of public resources. Given that the sector plays a key role in mobilizing domestic resources, due consideration should be given to the business community in the national Budget formulation processes. For the 2009/10 Budget, Priority focus was proposed on the following areas;

i. Reducing the high cost of doing business
ii. Increasing the disposable income by enhancing efficiency of productive sectors in order to create wealth and take advantage of opportunities available through value addition particularly, in the Agriculture (food production), Manufacturing and Services sectors. Tourism should also be prioritised as an invisible export product.

The above priorities required the government to formulate clear strategic interventions at both the firm and sectoral levels if the economy is to improve its productivity and enhance market competitiveness.

C. Principal Constraints to Private Sector Growth in Uganda for budget to address

[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 2006,2007 and 2008.
[2] *IMF has revised the prediction of Uganda's growth rate at about 5.3%*
[3] *Companies reported to have relocated include BATA, Uniliver, BAT, Coca-Cola, etc*

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

1. Infrastructure:

Transport: Access to the sea through the Central Corridor as an Alternative to traditional Northern Corridor (Mombasa Route) remains a challenge. The rail network from Mombasa is not effective; Absence of a cost effective alternative route to the sea given the numerous problems encountered on the northern corridor (include political and Non Tariff Barrier's); The implementation of the major truck/ feeder road linking the production sectors in the country to better markets is still low despite the allocation of 1.1 trillion shillings; the increased traffic jam into the Greater Kampala Metropolitan Area leads to reduced productivity[4] and competitiveness.

Energy: The cost of energy tariff remains very high and the supply is very erratic with surges not appropriate for production. Areas not on the grid continue to have supply problems and this includes the rural areas and urban centers like Arua. Cost of production remains high.

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 drastically reduce the cost of data transmission is yet to be achieved. This is affecting the Business Processing outsourcing opportunities available in the country.

Recommendation:

Pursue in the EAC Framework, the revumpment of the rail route from Dar es salaam – Mwanza –Port-Bell for purposes of providing alternative means of accessing the Sea (Uganda's import/export cargo) and urgently develop Port-Bell and Jinja pier; Expedite the procurement process for the water vessel replacing MV Kabalega; Fast-track the implementation of identified roads for reconstruction and rehabilitation particularly those facilitating activities of the private sector. Private sector partnership in implementation of the roads project be pursued through development of PPP Guidelines; Re-instate the diesel tax waiver (100 KVA) for businesses currently constrained by electricity shortage e.g. those located in rural areas or urban areas outside the grid e.g Arua; Implement the laying of the fiber optic cable to get connected to the world through the marine cable at Mombasa so as to reduce the cost of data transmission; Expedite actions to decongest greater Kampala Metropolitan area to enhance productivity by implementing elements of Kampala Rapid Bus project and lastly sustain the Government's contribution to the road and energy fund

2. Business Finance:

This remains a hindrance to business because of the following; Lack of long-term and appropriate financing instruments to boost local investments especially in Agribusiness; Prohibitive collateral requirements; High commercial bank lending rates continue to prohibit further investment; High overhead costs for commercial banks establishing branches upcountry.

Recommendations:

Fast-track the implementation of Pensions Sector Reforms to create finances to facilitate growth of businesses in Uganda ; *Expedite the recapitalisation of UDB to facilitate the growth of businesses through affordable credit and establish an agribusiness desk ; The proposed interest rate not be more than 10% per annum (long-term financing and agriculture) ;Provide incentives for current financers to lend to agriculture – guarantee scheme for agribusiness, reintroduce export guarantee scheme managed by Bank of Uganda*

3. Tax Policy

A good tax should among others ensure that the impact is equitable to ALL tax payers with the view of enabling a competitive environment for the Ugandan firms both within the Country and regionally. A good

[4] Labour spends 3 hours everyday 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.

business tax should also be affordable and ensure that the business continues to operate. The following highlights are of concern; PAYE threshold in Uganda is the highest in the region making the cost of labour for Uganda to be highest. Uganda threshold is USD 65. Kenya is 150USD and Tanzania is 85 USD. This threshold which was determined in 1996[5] need to change to reflect the growth of economy and the REAL VALUE of the thresh hold; VAT threshold has remained at 50Million for a long time and not reflecting the growth of the economy. The introduction of domestic VAT complicates this further. The exchange rate[6] used for computing taxes has increased real costs of imports of raw material and merchandize by over 23% leading to high cost of production against a depressed market; 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%. And lastly taxation in Uganda tends to be focused only on formal business without making attempts to widen the tax to include informal business[7]. This is a disincentive for formal business.

Recommendations:

PAYE threshold be increased from 130,000/= to 250,000/= for a start and all other 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 reduced to 16%; Compute the Taxes at 1610 Uganda Shilling as rate used during budget to relieve importers and also sustain revenue collection; Implement the national Identifier project to improve records for national and residents to support tax compliance among other reasons; 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 established in such a manner that provides incentive for compliance and firms to operate in a formal manner.

4. 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 . In some cases the incentives are discriminatory like the waiving income tax 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. The lack of comprehensive policy to guide development of service sector as we join EAC Common Market in service areas like Transport, Construction, and ICT will hinder the competitiveness of local firms.

Recommendations:

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 commercial 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; Fast-track the implementation of the regional industrial parks to promote investment in rural areas; Include OLD firms especially those with new projects which add value to agricultural products and are located at least 30 Kilometres outside Kampala; Waive the CAA charges on export cargo particularly, fuel levy; handling charges; landing fees and security sur-charge in order to reduce on air freight costs for Uganda's exporter by about 40 USD Cents / Kg.

5. East African Community Issues:

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

[6] *the report of Private Sector on the impact of global financial crisis elaborates further*

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

The integration brings with it advantages to the private sector. However these benefits need to reflect a win –win situation. The Partner States Committed to establishing a private sector driven economy. It therefore follows that policies need to support the private sector and they should be part of not only the negotiations process but also the implementation process. The process of dialogue with government at national level should be replicated when discussing regional issues. Policies need to be predictable for the private sector. The following concern are noted by the Ugandan Private Sector: The Ministry of EAC need to effectively carryout its coordination role to allow forums (which reflect PPP) to help develop consensus to guide the negotiators and implementers of EAC Issues. Policies agreed need to be consistent and avoid reversal as witnessed on the issue of plastics; the EAC customs Union comes into full implementation 2010 implying withdrawal of the Ugandan lists of raw materials and industrial inputs and also the internal taxes. This is a risk since Ugandan companies have not been able to carryout backward integration because of problems beyond their control like Energy, NTB's etc; Policies have not been put in place to support development of some specific service sectors and may prove detrimental to our service sector when the EAC Common Market becomes operational.

Recommendations:

MEACA should establish their co-ordination role more firmly and establish a forum which acts as a "clearing house" for agreeing on positions which will be taken at the EAC level. This forum (clearing house) must reflect a Private –Public Sector character. This forum need to create sub- committees which feed into it, like the Trade negotiation committee which is specialist, fiscal committee[8] to handle budget related issues etc.; Uganda with help of private sector establish the extent of injury for implementing the full Customs Union and if confirmed a case be put at EAC; EAC partner States should be predictable and avoid policy reversal to this end Uganda needs to adjust its policy on plastics; The NTB Monitoring Mechanism need to be implemented. A Phased approach be adopted in the implementation of the Common Market.

6. Global Economic Crisis:

The impact of the crisis requires a coordinated approach to enable all stakeholders to appreciate what is happening to facilitate filling information gap and facilitate predictability in planning. Efforts should be made to take advantage of the opportunities which make themselves available and at the same time removal of elements which increase the cost of doing business.

Recommendations:

The recommendations mention in part of this document also support the mitigation of the impart of the global slow down but others include; Establishment of a Public Private Sector think tank or forum to continuously dialogue and ensure that all policy proposals are agreed upon by consensus and ensure that decisions are implemented and evaluated on a continuous basis; use the budget as a stimulus package especially in food production by removing the supply side constraints and in the case of the road projects efforts must ensure that maximum employment is generated; Prudent Government expenditure to match the anticipated reduced revenue generation is highly recommended.

7. Implementation of agreed policy issues

Every year government makes commitment through the budget speech but does not fully implement them. Some of the examples are issues related to; the pension scheme, Commercial laws, capitalisation of UDB,

[8] *This committee falls under the docket of MFPED, but never consults with Private Sector before going to Arusha. The technical teams met in Arusha but did not consult with Private Sector organizations.*

50% gurantee for agric business; replacement of the MV Kabalega etc. All these affect predictability and confidence in the PPP process.

Recommendation:

Government should establish a monitoring mechanism which is robust. This mechanism should not only ensure proper use of resources but also that implementation has been carried out.

E. Conclusion

The business community highly anticipates that, the Government of Uganda shall give due consideration to the issues raised above in the coming national budget preparations. 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. Therefore, the2009/10 budget strategy should clearly spell out the priorities for the short to medium term while taking into account the major concerns of the Private Sector as detailed in the Platform document attached.