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PAPER ON THE STATE OF THE ECONOMY FOR THE FOURTH QUARTER FY 2022/23

PRESENTED TO

THE ADVISORY COUNCIL OF PRIVATE SECTOR FOUNDATION UGANDA

PREPARED

BY

POLICY, ADVOCACY AND BUSINESS DEVELOPMENT DEPARTMENT

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1. Introduction

The current business environment shows resilience and is on a steady recovery path. Uganda's economy is projected to grow at **5.5%** compared to **4.6%** last year (FY2021/22) and further predicted to hit **6%** in 2024. Uganda's economic performance is **1.9%** higher than the average growth rate of the Sub-Saharan Africa estimated at 3.6% for the calendar year 2023. The size of the economy has further grew by **13% (Ushs 21. 4 trillion)** from **Ushs 162.9 trillion** in the Financial (FY) 2021/22 to the current **Ushs 184.3 trillion** equivalent to **US$ 49.4 billion**[1] in the FY2022/23. Uganda's public debt was projected at **Shs. 88.9 trillion,** equivalent to **US$ 23.7 billion** by 30th June 2023 and in nominal terms, Uganda's Debt to GDP was projected to drop to **48.2%** this financial year ending June 2023 from **48.6%** at the end of June 2022.

The business environment improved due functioning of supply chains and stronger recovery in services and agricultural output. However, the recent Sudan conflict has affected some of our exports including tea and coffee. During the year, good performance was observed in the services and agriculture sector as compared to the industry sectors. The Services sector grew at **6.2%** compared to **4.1%** in the previous year and in the agriculture sector, the food crops, livestock, and fishing performed well, leading growth of the sector at **5.0%** compared to **4.3%** last year[2] despite the dry spell in the first quarter of the financial year. However, the Industry sector grew at **3.9%** compared to **5.4%** last year and this was due to lower output from manufacturing and mining & quarrying sub sectors during the month.

Sentiments about doing business in Uganda remained optimistic in June 2023 as the Business Tendency Index (BTI) improved to **61.98** in June from **58.39** registered in May 2023. A general improvement in economic activity is also reflected the Stanbic Bank Uganda's Purchasing Manager Index (PMI) fell to **56.4** in June 2023 from an over 2-year high of 57.4 in the previous month. Bank of Uganda maintained the Central Bank Rate (CBR) at 10% in June 2023. This was done in response to the easing inflationary pressures Shilling-denominated lending rates increased to a weighted average of **20.4%** in May 2023, up from **19.27%** in April 2023. The annual headline inflation slowed down from **6.2%** in the month of May to 4.9% in June 2023.

[1] https://www.finance.go.ug/publication/budget-speech-financial-year-20232024

[2] https://www.finance.go.ug/sites/default/files/press/Budget%20Speech%20June%202022.pdf

2. Global Economic Update

The world economic outlook is complex, given the high persistence of global inflation and hawkish monetary policies by the main central banks. According to the April 2023 International Monitory Fund (IMF) projections[3], the baseline forecast for growth is expected to fall from 3.4 % in 2022 to 2.8% in 2023 before settling at **3.0%** in 2024. Advanced economies are expected to see an especially pronounced growth slowdown, from **2.7%** in 2022 to 1.3% in 2023. In a likely alternative scenario with further financial sector stress, global growth declines may reduce to about 2.5% in 2023 with advanced economy growth falling below 1%.

The tighter financial conditions: the gas crisis associated with the Russia- Ukraine war; the humanitarian costs arising from displaced Ukrainians in the Europe; mistakes - under- or overtightening monetary policy; intensification of geopolitical fragmentation; could impede trade and capital flows (IMF, 2023) and higher oil prices following production cuts by the Organization of the Petroleum Exporting Countries (OPEC) and Russia.

The global slowdown foretells a contraction in demand for Uganda's exports and tightening global financial conditions means reduced financial support and debt distress to developing economies, and depreciation pressures on currencies of these economies. These would complicate both fiscal and monetary policies in these economies including Uganda.

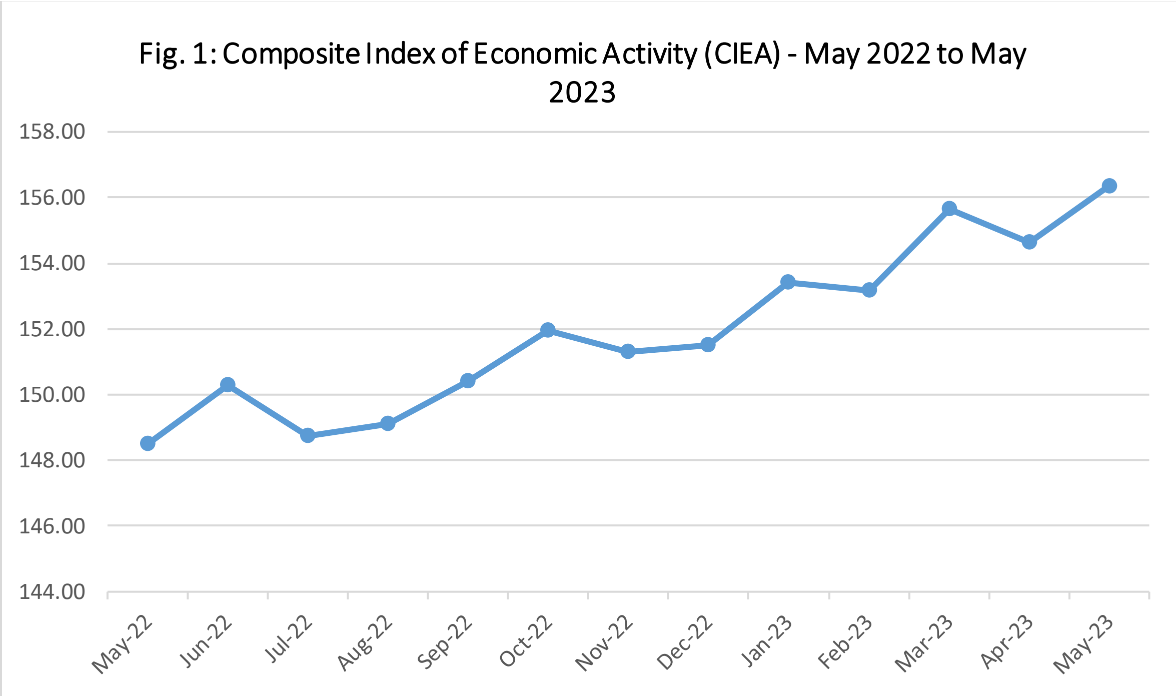
Global headline inflation in the baseline is set to fall from **8.7%** in 2022 to **7.0%** in 2023 on the back of lower commodity prices but underlying (core) inflation is likely to decline more slowly. Inflation's return to target is unlikely before 2025 in most cases.

3.0 Domestic Economic Activity

3.1 Composite Index of Economic Activity (CIEA)

The economic activity as well as prospects about business conditions continued to strengthen. This is shown by the upward trend in the high-frequency indicators. Economic Activity has continued to recover from the shocks experienced over the past two years, the Composite Index of Economic Activity (CIEA) increased by **1.13%** from 154.33 in April to 156.36 in May 2023 as shown in figure 1 below.

[3] https://www.imf.org/en/publications/weo



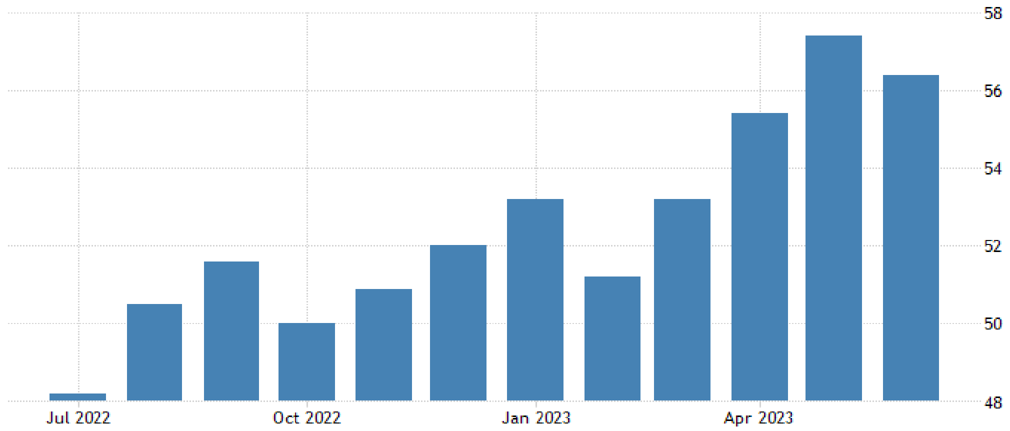
Source: Bank of Uganda – July 2023

3.2 Purchasing Manager Index

The general improvement in economic activity is also reflected in the Stanbic Bank Uganda Purchasing Manager Index (PMI) fell to 56.4 in June 2023 from an over 2-year high of 57.4 in the previous month but remained in expansionary territory for the 11th consecutive month and above the series average.[4] Both output and new orders continued to increase, boosted by stronger demand conditions. Additionally, employment was up for the third month in a row, with job creation observed across all five broad sectors. Purchasing activity also expanded, leading to a consecutive eight-month rise in inventories. On prices, input costs rose due to higher prices for construction materials, electricity, and water, as well as increased purchase prices and staff costs. Finally, firms-maintained optimism about the next 12 months based on the sustained growth in demand.

[4] https://tradingeconomics.com/uganda/composite-pmi

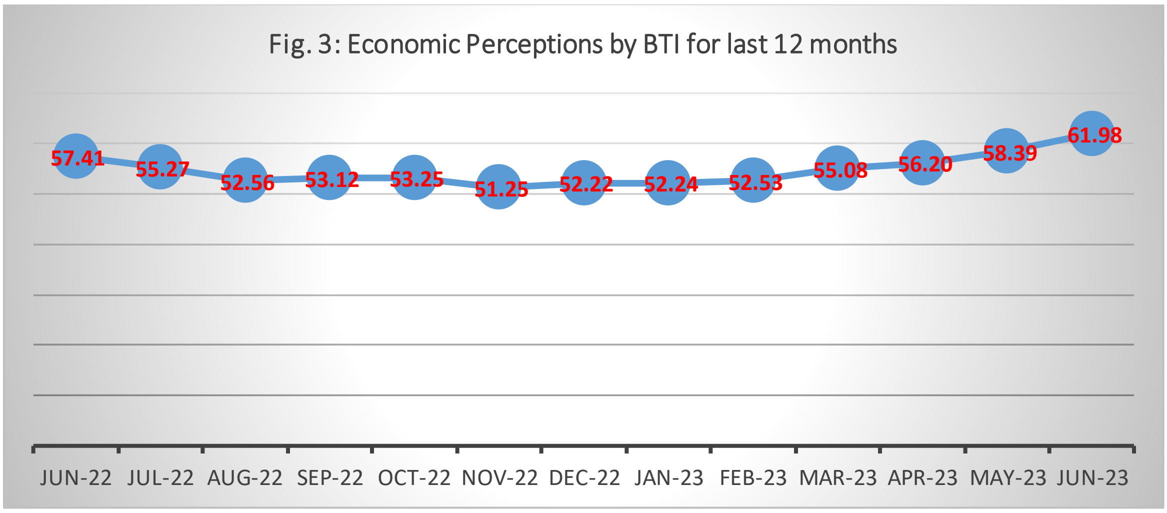
Fig. 2: Purchasing Managers' Index (PMI) for last one year (June 2022 to June 2023)



Source: Stanbic Bank Uganda, July 2023

3.3. Business Perceptions

Sentiments about doing business in Uganda over the last 3 months remained optimistic in March 2023 as the Business Tendency Index (BTI) improved to 61.98 in June from 58.39 registered in May 2023 as shown in figure 3. Assessment of key indicators by sector showed that optimism was reflected mainly in Agriculture, Construction, Manufacturing, Services, and Retail Trade. Additionally, key indicators measured by the index like the present business situation, business situation in 3 months, order volumes with suppliers, number of employees and financial situation signalled optimism within the business community[5].



[5] https://www.bou.or.ug/bou/bouwebsite/Statistics/

Source: Bank of Uganda – July 2023

To sustain the existing positive trajectory, and stimulate effective demand within the economy, economic policy measures need to focus more on the right monetary – fiscal policy mix with succinct concertation on interventions aimed at prioritization of investment in value chain development, to deliver quick benefits to the economy. Some of the critical interventions to pursue include.

i. Consider structuring demand for goods and services through well-regulated and administered buffer stocks for products such as fuel, critical food products- as per the basket of goods defined by UBOS, and key industrial seasonal crops to build the resilience of the economy against external shocks and better manage excessive increase in prices. More concertation should go to proper management system to achieve efficiency. Furthermore, government needs to prioritize investment in irrigation systems especially in areas that are food baskets to sustain food production.

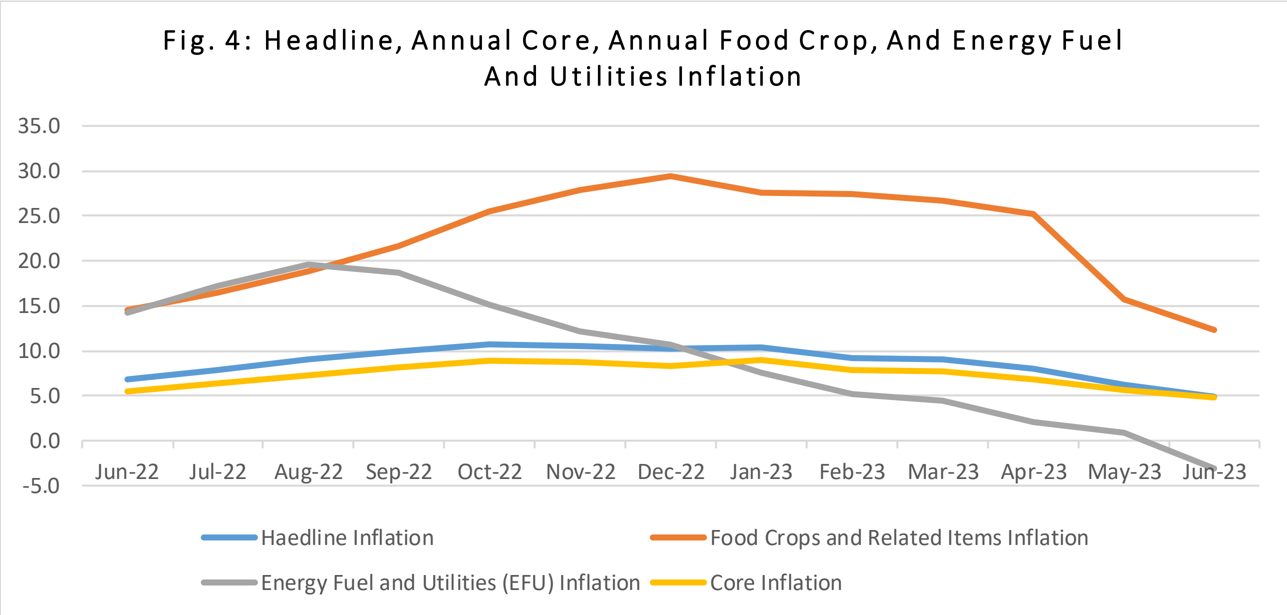
ii. Prioritize investment in the selected food and cash crops products such as coffee, Cotton, team, maize, beans, bananas, and oil seed crops to increase food security which will eventually contribute to the reduction of inflation, spur exports thus checking the foreign exchange volatility. This if implored to support Government generate more tax revenue used in meeting existing debt obligations.

iii. The interventions above should be based on a value chain basis and at sector level but driven by leaders in the chain (facilitate business linkage among big and smaller enterprises including informal producers) and supported by both government and development partners in such a way that will be sustainable.

4.0. Inflation

The annual headline inflation slowed down for the fifth month running from 6.2% in the month of May to 4.9% in June 2023. This was largely driven by a slowdown of price of manufactured goods and food crops contributing to the lower annual inflation figure. The reduction in diesel by 2.1% from Ushs 4,988 in May to Ushs 4,862 in June 2023, petrol prices by 0.9% from Ushs 5,050 in May to Ushs 5,024 in June 2023 also contributed to the overall slowdown in the pace of increase in prices. Further, the reductio in the price for firewood by 5.8% contributed to the reduction in inflation.

Annual Core inflation slowed down to 4.8% in June 2023 compared to 5.6% in year registered in the year ended May 2023. This was mainly on account of a continued slowdown in the increase of prices for laundry soap, fish, beans, matoke and rice.



Source: Uganda Bureau of Statistics, July 2023

Annual food and related items inflation significantly dropped to 12.3% in the year ending June. 2023 compared to 15.7% in the year ended May 2023. This was mainly driven by a slowdown in the increase of prices for matoke and Irish potatoes recorded in June 2023. Prices for tomatoes also declined by 4% during the month of June compared to May 2023. The slowdown in price increases for food crops since the beginning of the calendar year is partly explained by the increased supply from good harvests and a reduction in transport costs.

Annual Energy, Fuels and Utilities inflation likewise slowed down to -3.1 % in the year ending June 2023 compared to 0.9% recorded in the year ended May 2023. This was largely on account of declining prices for petrol and diesel, which fell by 0.9% and 2.1% respectively in the month of June 2023. The reduction in petrol and diesel prices is consistent with reducing prices of international oil prices, with a barrel of Brent crude oil falling from US$ 120 in June 2022 to US$ 75.9 at the end of June 2023[6].

The PSFU proposes the following short term, medium term, and long-term proposals which Government should consider addressing the issues of rising commodity prices. They include:

i. Prioritize investment for infrastructure for water for production to improve access to water required for irrigation amongst the population. Other affiliated services such as commercialization, water testing and extension should also be aligned.

ii. Maintain a market-based determination of prices to support a continuous supply of the goods and services intended to ensure that demand does not outstrip supply.

iii. Government should control the production of illicit agro inputs such as seeds, pesticides, herbicides, and fertilizers. Furthermore, there is need to ensure constant supply of quality agro inputs especially seeds and fertilizers and subsidisation of the same to manage the costs of production.

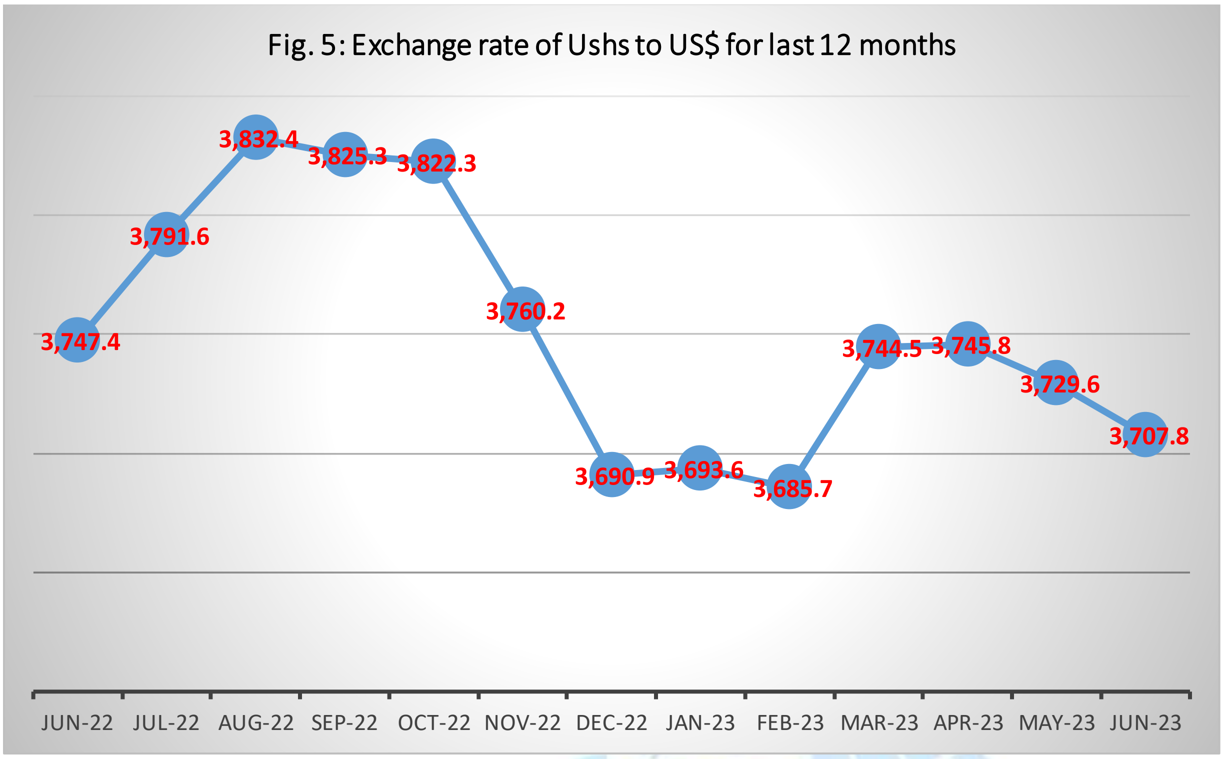
5.0. Sector Developments

5.1. Financial Sector Developments

5.1.1. Exchange rates

The Shilling was stable against the US Dollar, trading at an average rate of Shs 3,707.8/USD in June 2023 from Shs 3,729.6/USD recorded the previous month. This represents a slight appreciation of 0.6%, partly on account of the tight monetary policy stance which has reduced demand for the dollar while increasing dollar inflows from the offshore investors.

[6] https://www.statista.com/statistics/326017/weekly-crude-oil-prices/



Source: Bank of Uganda, July - 2023

Given the cost of the monetary policy, the government needs to concentrate more on required Fiscal Policy interventions to stimulate production of goods and services as a more permanent and sustainable solution to the country's economic challenges.

5.1.2. Interest rates movements

5.1.3. Central Bank Rate (CBR)

Bank of Uganda maintained the Central Bank Rate (CBR) at **10%** in June 2023. This was done in response to the easing inflationary pressures. The CBR of **10%** was estimated to be sufficient to support the reduction and stabilization of inflation around the medium-term target of **5%** by the end of 2023.

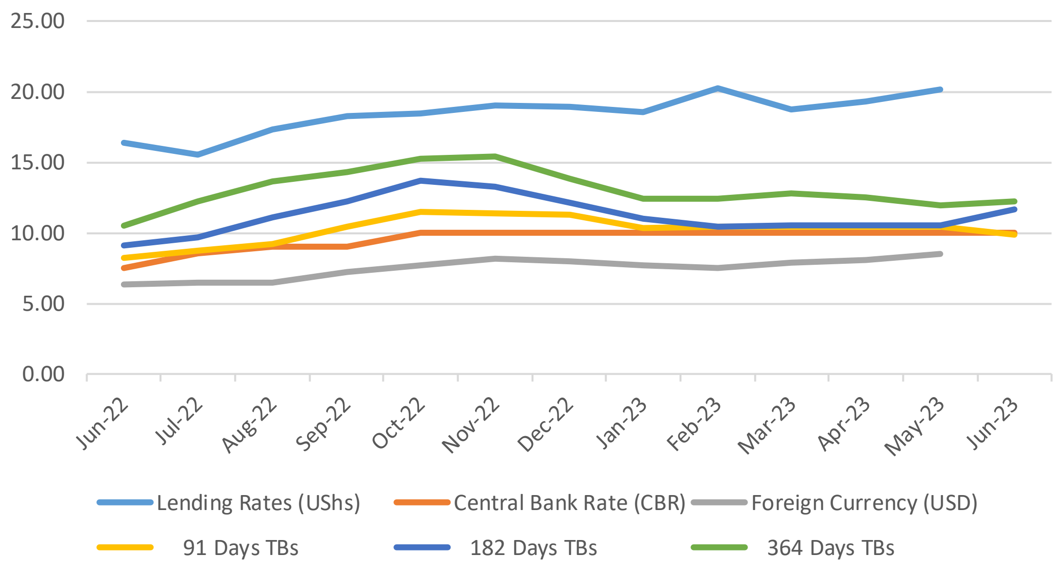
5.1.4. Lending Rates

Shilling denominated lending rates increased to a weighted average of **20.14%** in May 2023 up from **19.27%** April 2023. This was on account of a tight monetary stance and end of the period of substantial borrowing by large corporate firms which are considered less risky by the commercial banks. During the month of May 2023, borrowers were mainly from manufacturing, personal loans and household loans who are charged relatively high rates. On the other hand, interest rates charged on foreign currency denominated credit remained relatively stable at 8.50% in May 2023, from 8.11% during April 2023.

5.1.5. Annualized Yields (Interest Rates) on Treasury Bills

During June 2023, yields (interest rates) on Treasury Bills for the 364-day increased from 11.9% in May to 12.3% in June 2023. The interest rate for 182 days increased by 0.9% from 10.5% in May to 11.7% in June 2023. However, the interest rate on the Treasury Bills for the 91 days declined by **0.6%** from 10.4% in May to 9.8% in June 2023. A combination of the lower demand from the market and increased issuance from Government explains the increased in the yields.

Fig. 6: Interest rates for the Central Bank rates, Lending rates, and Treasury Bills for the last 12 months



Source: Bank of Uganda Statistics, July 2023

Uganda therefore needs to develop its own local long-term savings that can be used to address oligopolistic tendencies in the financial structure. This can only happen through requisite laws in amendment to the NSSF Act 2021 and Government Pensions Act to support mobilization of long-term savings in the economy. Other specific proposals include:

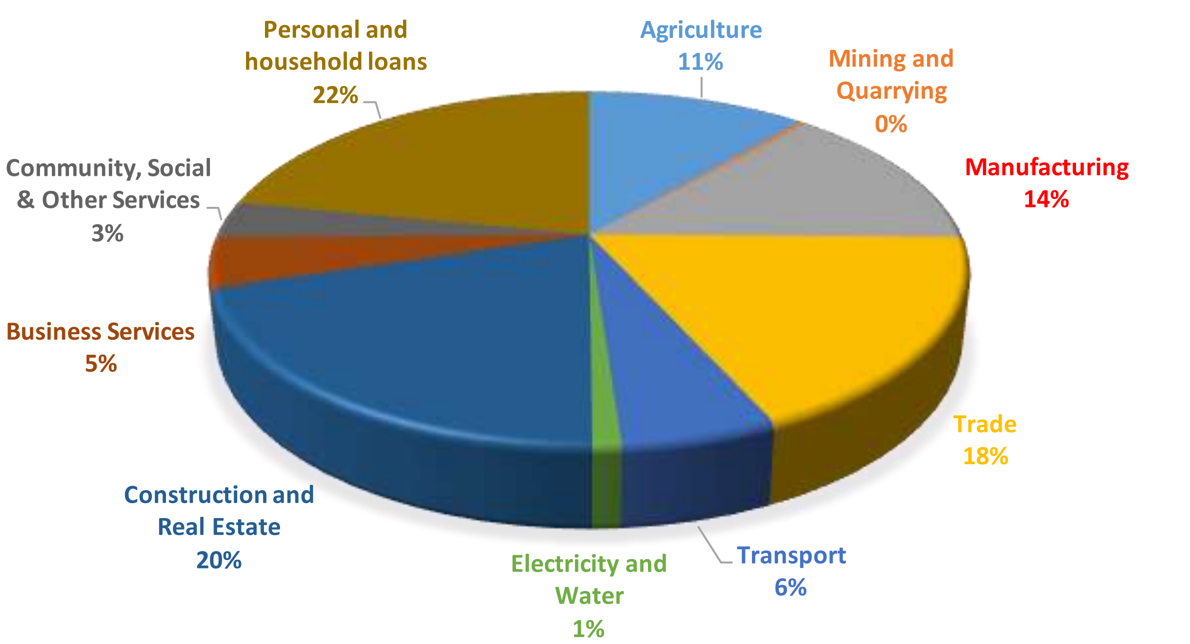
i. Amend the current Government Pensions Law to promote long term savings in the economy. The Pensions law needs to be amended in tandem with the NSSF Act to enable government employees to save with NSSF. This will grow the fund to enable both private sector and government borrowing.

ii. Create a risk guarantee schemes for about 7 prioritized sectors including agriculture, manufacturing, education and health, real estate, oil and gas, Information, Communication, and Technology (ICT) and tourism. This will achieve a reduction in lending rates from an average of 20.14% to between 10% and 15% depending on the sector.

5.1.6. Outstanding Private Sector Credit

The stock of outstanding private sector credit increased by 0.33% to UShs. 20.529,7 billion in May 2023 from Shs. 20.463.6 billion in April 2023. Personal and household loans had the highest percentage of 22% followed by construction and real estates at 20%. The mining sector has the lowest rate of 0.68 billion. Growth in the stock of private sector credit was largely on account of higher optimism in the business community, amidst expectations of a continued pick-up in economic activity.

Fig. 7: Private Sector Credit By Economic Sector in June 2023



Source: Bank of Uganda Statistics, July 2023.

5.1.6 Credit Extensions

The value of credit approved for disbursement in April 2023 amounted to Shs 1,121.5 billion, representing an approval rate of 69.5%. This compares favorably with the 67.9% registered in March 2023. Building, Construction and Real Estate took the largest share of credit approved in April 2023 at 26.2% (Shs. 293.87 billion). This was followed by Personal and Household loans at 24.6% (Shs. 275.43 billion) and Trade at 18.5% (Shs. 207.61 billion). These three sectors accounted for nearly 70% of the credit extended to the private sector during the month. Other notable recipients of credit included Agriculture at 11.9% (Shs. 133 billion), Business, Community, Social & other Services at 6.2% (Shs. 69.03 billion) Transport and Communication at 5.7% (Shs. 63.89 billion), and Manufacturing at **5.2%** (Shs 58.52 billion).

The PSFU recommends that to grow the financial sector in Uganda.

i. Develop mandatory savings and pension scheme for civil servants should become mandatory and contributory.
ii. The National Social Security Fund (NSSF) act should be amended to provide for easier.
iii. access to savings by members rather than wait until the age of 55 as is the case now.
iv. The NSSF law as amended should permit the fund to design schemes to attract members from the informal sector as well as the self-employed.
v. Address the rigidities involved in Agriculture Credit Facility to promote agriculture sector financing and Small Business Recovery Fund for MSMEs to recovery from the COVID 19 effects.
vi. Promote financial literacy to support reduction in the non-performing assets Adopt and implement the draft EAC regional Payment System roadmap to reduce costs for cross-border transactions.

5.2 Developments in the trade and commerce sector

5.2.1 Merchandise Trade Balance

During February 2023, Uganda's trade deficit with the rest of the world widened **to US$ 293.0 million**, from **US$ 231.8 million** registered in January 2023. This was on account of a reduction in export earnings and increased import bill over this period. Compared to February 2022, the merchandise trade deficit slightly narrowed from **US$ 300.9 million to US$ 293.0 million** owing to an increase in export receipts which more than offset the increase in the import bill between the two periods.

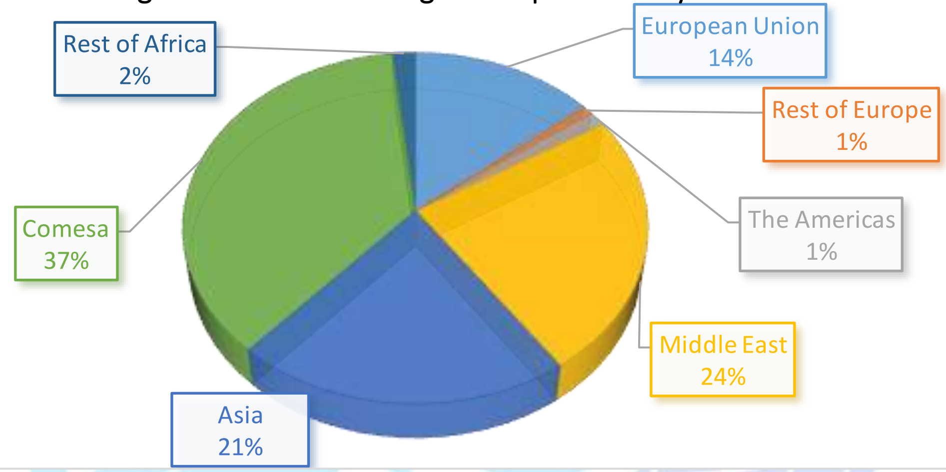
5.2.2 Merchandise Exports

In May 2023, Uganda exported merchandise worth **US$ 585.81 million**. This was a **8%** increase when compared to **US$ 538.87 million** exported during April 2023. This increase was mainly on account of more export earnings from gold, coffee, tea, and other re-exports registered during the month. Gold exports during the month amounted to **US$ 200.7 million**, which is **43.2%** of the total non-coffee formal exports in the same month of May 2023.

5.2.3 Destination of Exports

The COMESA region was the was the top destination of Uganda's exports in May 2023, accounting for **37%** of the total exports for the month. This was followed by the middle east at 24%, Asia at 21% and European Union at 14% as illustrated in the figure 8 below.

Fig. 8: Destinations Of Uganda Exports in May 2023



Source: Bank of Uganda Statistics, July 2023.

5.2.4 Merchandise Imports

The value of merchandise imports increased by **12.5%** to **US$ 841.56 million** in May 2023 from **US$ 736.20 million** the previous month. This growth was mainly on account of higher value of machinery equipments, vehicles and accessories imported by the private sector during the month which increased by **29.9%** from **US$ 116.38 million** in April to **165.98 million** in May 2023. **Other private sector imports with notable increases include mineral products (excluding petroleum products), chemical and related products, base metals and their products and vegetable products**. Comparison with the same month last year shows that merchandise imports grew by **27.8%** from **US$ 607.32 million** in May 2022, to **US$ 841.56 million** in May 2023 mainly driven by increased import volumes for petroleum products, machinery, equipment, and vehicles among others.

PSFU proposes the following recommendation required to facilitate and grow exports in the economy.

i. Invest in addressing the constraints which limit supply of exported products through promotion of standards, value chain development, traceability systems and cold chain related export infrastructure.
ii. Invest on export market information studies for key identified markets such as DRC, South Sudan, Ghana, Algeria among others under the AfCFTA to inform the private sector on the existing market opportunities.
iii. Address the challenges which impact competitiveness of manufacturing and agriculture sector to support exports.
iv. Invest in small-scale manufacturing to further promote value addition.
v. Invest in irrigation schemes, good quality agricultural inputs and standardization by supporting the Uganda National Bureau of Standards to meet the needs of the fast-growing private sector.

5.3. Developments in Agriculture Sector

Coffee exports during the month of May 2023 amounted to **US$ 73.26 million** which is a **18.1%** increase from the **US$ 59.99 million** in April 2023. The increase in value from coffee is approximately proportional to the 17.7% increase in volume of coffee produced. The 18.1% increase in the value is also attributed to the 0.3% increase in the price of coffee per unit from **US$ 2.68** in April to **US$ 2.69** in May 2023 as illustrated in Table 1.

Also, significant to note is the 36% increase in sugar exports value from **US$ 10.19 million** in April to **US$ 15.94 million** in May 2023. Further, other commodities like flowers, cocoa beans, fruits and vegetables and sugar have increased. While cotton, maize, beans, and cotton exports have reduced, and this could be attributed to the low production as most of these commodities have been planted and yet to be harvested.

Table 1: Showing Composition of Exports Values (US$ millions) for the last 6 months from December 2022 to May 2023

Commodity (Value US$ million)	Dec-22	Jan-23	Feb-23	Mar-23	Apr-23	May-23
Coffee (Value)	59.54	67.35	66.03	71.54	59.99	73.26
a) Vol (Million 60kg Bags)	**0.42**	**0.49**	**0.48**	**0.49**	**0.37**	**0.45**

b) Av. unit value	**2.37**	**2.27**	**2.30**	**2.44**	**2.68**	**2.69**
Cotton	1.06	3.16	3.87	5.34	1.65	2.33
Tea	8.84	7.14	7.64	6.64	6.89	9.43
Fish & its products	14.58	12.12	12.46	11.62	10.19	9.77
Maize	20.48	35.01	20.85	30.78	17.59	10.51
Beans	14.51	7.48	5.67	3.94	1.77	2.40
Flowers	4.10	5.62	6.25	5.65	5.01	6.62
Cocoa Beans	5.01	8.96	12.13	11.49	11.51	11.57
Fruits & Vegetables	5.28	5.20	6.06	5.57	7.57	7.71
Sugar	9.62	1.53	2.17	5.24	10.19	15.94
ICBT Exports[7]	**41.60**	**58.39**	**44.44**	**48.14**	**50.32**	**47.64**

Source: Bank of Uganda Statistics, July 2023

The PSFU recommends that to increase exports and increase foreign exchange earnings, government should priotise:

i. Establishment of a soluble coffee plant in Uganda to encourage coffee value addition and increase revenue generated from the current US$ 2.69 to US$ 30 per kilogram when the coffee is roasted and ground8.
ii. Promotion and funding of domestic consumption strategies as a fundamental ingredient to sustainable value addition and industrial processing in particular a key mitigation to price stability. Such strategies include but not limited to; Introduce coffee drinking to start at home, colleges, institutions, and government entities like it is done in Brazil and Ethiopia among other countries.
iii. Strengthening the coffee research system: Put in place sustainable funding mechanisms for the Coffee research Centre in Kituuza and develop technologies to avert climate change and Coffee wilt disease.
iv. Provide support towards strengthening the Coffee farmer organizations i.e. a percentage from the cess levied on Coffee exports need to be channelled in this direction of the emerging market opportunity es arising out of the exploration of oil and gas sector.

[7] ICBT: Informal Cross Border Trade Exports

[8] https://nucafe.org/

v. investments that will **increase production and productivity**, reduce post-harvest losses, improve on post-harvest handling and storage, increase agro-processing and value addition to increase the value of the agricultural export.

vi. Deliberate decisions to increase equitable access and utilization of Agricultural Finance will further grow the agricultural sector.

vii. investment in **infrastructure for water for production to the level of road**. The government should ensure that water reaches the farm level to support the farmer. In the meantime, the government should plan well organised water harvesting strategies for both the public and private sector actors. This intervention will increase Uganda's irrigation coverage to a figure above **0.5%**[9] and boost Uganda's utilisation of the arable land from the current **35%**[10] and major in agriculture which is Uganda comparative advantage given that **48%**[11] of East Africa's arable land is in Uganda.

viii. Further, the government should develop a horticulture policy together with its implementation plan to guide the stakeholders in the sector.

5.4 Developments in Logistics and Transport Sector

5.41 The Katonga bridge

On 11th May 2023, the Katonga bridge succumbed to devastating flash floods that swept through the area[12]. The bridge connects Central Uganda with western and southwestern Uganda. Further, the Katonga bridge serves as a vital link for trade between Uganda, and East African countries, including Rwanda, Kenya, Tanzania, and Democratic Republic of Congo (DRC). Travelers were forced to seek alternative transport means and routes that increased the distance by over 56 kilometers[13]. The bridge plays a significant role in the facilitation of

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[9] PSFU Platform for Action 2022, Volume 18.

[10] https://www.trade.gov/country-commercial-guides/uganda-agricultural-sector#:~:text=Eighty%20percent%20of%20Uganda's%20land,only%2035%25%20is%20being%20cultivated.

[11] https://www.youtube.com/watch?v=Nw_d_EmKCN0

[12] https://www.monitor.co.ug/uganda/news/national/lukaya-turns-into-ghost-town-after-katonga-bridge-collapse-4240180

[13] https://realmuloodi.co.ug/katonga-bridge-collapse-turns-lukaya-into-a-ghost-town/

different sectors like Agriculture, Construction and Real estate, Trade and Commerce, Tourism and Hospitality, and Manufacturing among others.

The PSFU recommends that to reduce the cost of doing business, a lasting solution to the bridge should be found in the medium term. Furthermore, government especially the National Environmental Management Authority should regulate sand mining in the Rwera swamp. To that effect, a flyover would be the best alternative. This will eventually eliminate business disruptions and increase foreign exchange earnings.

5.42 Transport of Uganda's Imported Cargo

82% of Uganda's cargo pass through the port of Mombasa[14] and every time Kenya enters strikes, business is affected especially in the flow of goods from Mombasa through the Northern Corridor route. Uganda also uses the Port of Dar er Salam through the Central corridor to transport its goods into Uganda and in the year 2020, Uganda imported goods through Central corridor worth **153,964 tons**[15]. This value is far much low as compared to **1.2 million metric tonnes**[16] of cargo that went through the Northern Corridor the same year and given the persistent strikes in Kenya like the most recent one on 12th July 2023 where over 5000 trucks were stuck at the border[17], there is need for Ugandan traders to also consider using the central corridor as an alternative route for import of goods. However, a lot need to be done the central to make sure the route is competitive and below is PSFU Position to enhance the Central Corridor:

i. **The Ease of getting port passes and truck passes;** currently, Ugandans with cargo using Mombasa port are in most cases cleared within one day as compared to about two days of cargo clearance at the Port of Dar er Salaam and as a result, the business community would find it convenient to use Mombasa Port as compared to the Port of Dar er

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[14] https://www.monitor.co.ug/uganda/business/prosper/82-of-uganda-s-cargo-passes-through-mombasa-1818638

[15] file:///C:/Users/MartinMaku/Downloads/cl5hwnoii00k80io2g4ztui0f-central-corridor-transport-observatory-annual-report-2021-english-version%20(2).pdf

[16] https://www.newvision.co.ug/category/news/uganda-cargo-at-mombasa-port-grows-to-23-121104

[17] https://www.monitor.co.ug/uganda/news/national/over-5-000-trucks-stuck-at-borders-as-drivers-strike-4303044

Salaam. The Private sector therefore proposes that the corridor makes sufficient interventions to enable cargo clearance in a day. Among these interventions is the engagement of the Tanzania Revenue Authority (TRA) to adopt the use of the electronic single window system that is being used by Uganda to enhance compatibility and reduce cargo clearing time.

ii. The cost effectiveness and efficiency; currently Ugandans transporting cargo to Uganda spend about US$ 4,500 on transport for a container from the Port of Dar er Salaam for 4.5 days as compared to US$ 3,000 from the port of Mombasa for 3 days. As a result, 80% of Uganda's cargo passes through the Port of Mombasa versus the 20% of cargo coming through the Port of Dar er Salaam. PSFU proposes that Ugandan cargo at the port of Dar er Salaam be transported by railway to Mwanza Port and since it takes only eight hours to Uganda, and this will make the use of the Port of Dar er Salaam Cost and time effective and hence a port of preference by the Uganda Business Community.

iii. The inclusion of Ugandan business community at the port operations. There is need for a liaison office at Tanga and Mwanza port that consider inclusion of Ugandan business community in the operations especially the clearing agents who can take care of Ugandan business community interests to enable fast movement of goods while at these Ports.

iv. Cargo clearance time within the Ports; Cargo clearance the Port of Dare Salaam takes about one week to be cleared as compared to 3 days of cargo clearance at the port of Mombasa and this at times affects the business community. PSFU proposes that the process of cargo be reevaluated to ascertain the causes for delays and fix them to enhance the port competiveness in the region.

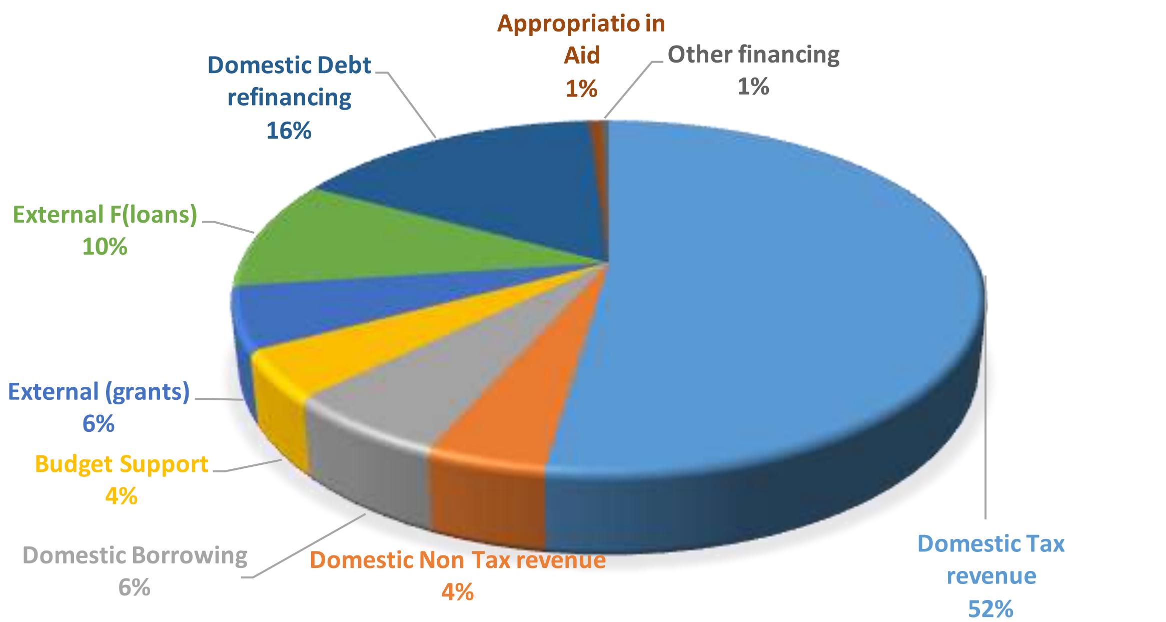
v. Training of the customs clearing agents; Because the clearing system for Tanzania is different from the one being used in Kenya, there is need to fast track the commitment to train the Ugandan customs clearing agents who will be involved in the cargo clearance at the Dar er Salaam, Mwanza, and Tanga Ports.

6.0 The 2023/24 Financial Year Budget

6.1 Source of revenue

The resource envelope for Financial Year 2023/24 amounts to **Shs 52.7 trillion** which is **8.7%** higher the previous financial year budget worth **Shs 48.1 trillion**. In this financial year, the government has planned to raise **Shs. 27.4 trillion (52%)** of the budget get supported from the domestic tax revenues, a target which is **13.1%** higher than the previous financial year. To reduce crowing of the private sector in domestic borrowing, the government has reduced its borrowing from **Shs. 5 trillion** to **Shs 3.3 trillion** which is a **4%** change to domestic borrowing contribution to the budget. **Shs. 8.3 trillion (16%)** of the budget will be raised through domestic debt refinancing while **Shs. 5.3 trillion (10%)** will be located through external borrowing and **Shs. 3.01 trillion (6%)** will be gained externally inform of grants as illustrated in the figure below.

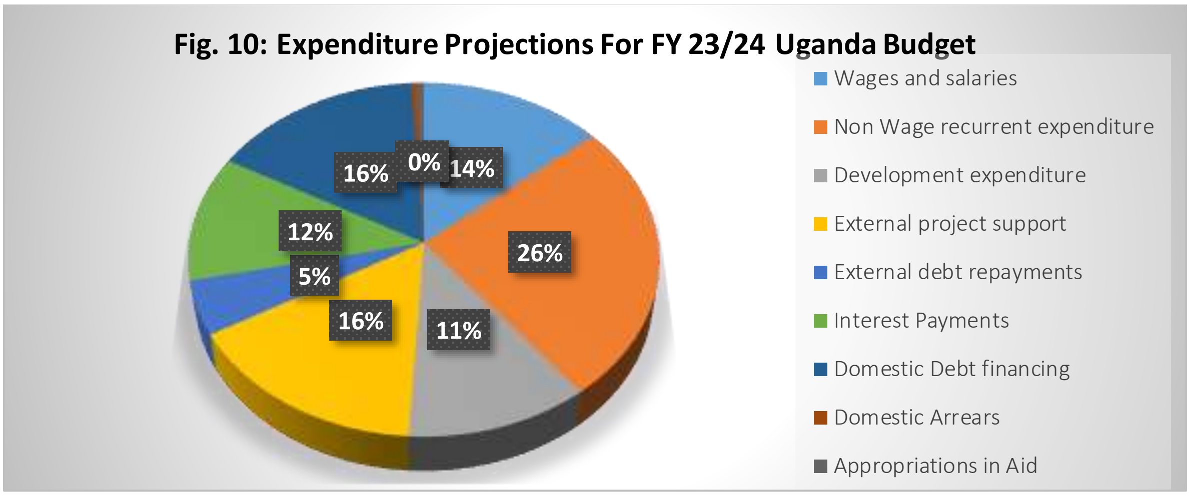
Fig. 9: Revenue Projections For FY 23/24 Uganda Budget



Source: Budget Speech, Financial year 2023/24, MoFPED.

6.2 Planned expenditures

In this year's Budget, non-wage expenditure is expected to take **Shs 13.5 trillion (26%)** of the budget which is the highest portion of the budget. worth **Shs 13.5 trillion**. Both domestic debt financing and external project support financing will each take **16%** of the budget translating to a total of Shs 16.7 trillion as illustrated in the figure below. The government of Uganda has further allocated Shs 6.1 trillion for development expenditure which is 11% of the total budget.



Source: Budget Speech, Financial year 2023/24, MoFPED.

6.3 Budget priorities for Private sector Development

i. **Industrial developments:** the Uganda Investment Authority (UIA) has acquired **12 square miles** in various local governments across the country in the **18 zones** for industrial development.

ii. **Small and Medium Enterprise Development:** SMEs in the manufacturing and exports will be supported by the US$ 200 million World Bank Investment for Industrial Transformation and Employment (INVITE) project that will provide grants and concessional credit to qualifying SMEs. **Shs. 209.3 billion** has been allocated for this financial year 2023/24.

iii. **Tourism; Shs 249 billion** has been allocated to promote tourism. domestic and inbound tourism will be promoted including marketing of Uganda as a global and regional center for Meetings, Incentives, Conference and Exhibitions (MICE).

iv. **Transport Infrastructure: Shs 4.5 trillion** representing **13.3%** of the total budget has been allocated to road maintenance and construction, railway development and rehabilitation, water, and air transport development. Below are some of the priorities:

a. **Shs 1 billion** has been allocated to each district, city and municipality for road grading, murram and compacting worth **Shs 176 billion in total**.

b. **Shs 535 billion** has been allocated to commence the construction of Malaba Kampala Standard Gauge Railway (SGR).

c. **16 national road projects** including Atiak Laropi, Moroto-Lokitanyala, Kawuku-Bwerega, Namugonde-Bigiri, Nsambya-Mukwano, the Kampala flyover and Rushere Town and Kyamate Access roads.

d. **US$ 608.7 million** has been secured to address the flooding, traffic congestion, poor road infrastructure, and unsignalized junctions in Greater Kampala Metropolitan Area (GKMA) covering up to **504 kilometers** of roads.

v. **Power Infrastructure: Shs 1.3 trillion** has been allocated for electricity interventions including **761 km** of transmission lines and associated power substations constructions to improve power stability and reliability of the networks.

vi. **Digital Transformation: Shs. 192 billion** has been provided to accelerate digital transformation including deployment of Wi-Fi to **820 locations** targeting schools, hospitals, markets in the selected sub-regions.

vii. **Oil and gas: Shs. 447 billion** has been allocated to fast truck the development of petroleum resources including construction of the East African Crude Oil Pipeline (EACOP) and the National Oil refinery. Further, **Shs 54.3 billion** has been provided for Mineral Beneficiation and operationalization of the recently approved legislation to regulate Artisanal and Small-Scale Minors (ASMs).

viii. **Science, Technology, and Innovation: Shs 257billion** has been allocated to support science, innovation, and technology developments especially among scientists and innovators to know and attain Intellectual Property Rights.

6.4 Tax Amendments

The tax laws have been amended to improve the tax system and ensure fairness. These measures generated **Shs 615 billion** in additional revenue equivalent to 0.3% of GDP. Some of the tax laws and their highlights are mentioned below.

6.4.1 Income Tax

The Income Tax Act has been amended to allow taxpayers who obtain credit facilities from SACCOs, non-deposit taking microfinance institutions, self-help groups, and community-based microfinance institutions to deduct the entire interest on loans from these institutions as a business expense while determining their taxable income. in addition, a withholding tax of 10% has been imposed on commissions paid to agent bankers to equalize their tax treatment with other agents operating similar businesses such as mobile money agents.

6.4.2 Value Added Tax

The VAT Act has been amended to: i) **Exempt** the **supply of concentrates** and seed cake from VAT, to incentivize local manufacturing of animal feeds and premixes; ii) Allow non-resident taxpayers to **file returns and pay tax in United States Dollars** to facilitate compliance of non-resident taxpayers operating in Uganda; and iii) Require **foreign remote providers of electronic goods and services to account for VAT** on goods and services sold in Uganda, to bring e-commerce transactions into the tax system. In addition, the scope of **electronic services** on which VAT is applicable has been expanded to include among others, **films, games of chance, advertising platforms, streaming platforms, cab-hailing services, cloud storage and data warehousing.**

6.4.3 Excise Duty Act Amendments

The Excise Duty Act has been amended to **remove the excise duty of US Dollar 9 cents per minute** on incoming international calls originating from the United Republic of Tanzania. Additionally, the size of investment capital required for an investor to benefit from excise duty exemption on construction materials, has been reduced **to US$ 5 million from US$ 50 million** for Uganda nationals. **Foreign investors** will be required to have investment capital of at least **US$ 50 million** to benefit from this exemption. Further, excise duty on mineral water, bottled water, and other water purposely for drinking has been imposed at **10% or Shs 75 per litre** whichever is higher.

6.4.4 Tax Procedures Code Act Amendments

Tax Procedures Code Act has been amended to **waive any interest and penalty on tax arrears outstanding as of 30th June 2023**, to address requests from taxpayers who have cited hardships caused by the Covid-19 lockdown. This provision is however, limited to taxpayers who come out and pay by 31st December 2023.

6.5. Public Debt Stock

Uganda's public debt stood at **Shs. 80.8 trillion**, equivalent to **US$ 21.7 Billion** as at end December 2022. Of this amount, external debt was **Shs 47.9 trillion** equivalent to **US$ 12.9 billion** while domestic debt was **Shs 33.0 trillion** equivalent to **US$ 8.9 billion**. Public debt was projected at **Shs. 88.9 trillion,** equivalent to **US$ 23.7 billion** by 30th June 2023. In nominal terms, Uganda's Debt to GDP was projected to drop to **48.2%** this financial year ending June 2023 from **48.6%** at the end of June 2022. The reduction is due to the Government commitment to debt sustainability. This is slightly below the Government policy target of not more than **50% of GDP** and below **the 52.4%** threshold provided for in the Charter for Fiscal Responsibility as at end financial year 2023/24.

PSFU therefore recommends that the FY 2023/2024 budget should prioritize the following.

i. **Support for exports:** As part of budget support for exports, the government should concentrate on interventions that will drive down the cost of our exports. Such interventions include (but not limited to) export financing facility, investing in the standard and metre gauge railway and water transport.
ii. Government should consider **structuring demand** to plan and program the markets and supply for domestically produced goods to ensure guaranteed markets and farm gate prices for the local producers which will ensure consistent production for goods and services. To start with, integrate buffer stocks in the Parish Development Model for products such as critical food crops for the local market. For this to be actualized, there is a need for good monetary policy, and fiscal policy coherence to spur production.
iii. It is also important to address the prevalent NTBs with the key export markets while also prioritizing investment to improve the competitiveness of the exports.
iv. It is also important for the government to incentivize sectors such as housing, tourism, industry, and mining whose returns on investment are massive given the fact that they maximize our foreign exchange earnings.

7.0 Trade in the East African Community amidst Non-Tariff Barriers

Uganda Private sector continue to face several Non-Tariff Barriers (NTBs). This increases transaction time and costs of doing business which contributes to low intra-regional trade volumes. Various studies have established NTB's as one of the key factors contributing to the decline in intra EAC trade currently standing at about 15%. The solution to these measures seems not to be sustainable as they NTB's keep re-occurring in different forms in the East African Community as illustrated below is a highlight of some NTBs from some selected countries. In Uganda, more than 9 million people have made loses arising out of restrictions in milk, poultry, maize among others.

7.1 Trade between Uganda and South Sudan

Between 17th May and 8th July 2023, the government of the Republic South Sudan impounded about 92 trucks[18] carrying six consignments including maize grain, milled maize flour, dry beans, millet grains, sorghum grains and cassava flour stating that these consignments were affected by aflatoxin and therefore not fit for human consumption. The trucks were held in two turns, i.e., the 66 trucks which were held about 7 kilometers into the Republic of South Sudan and the other 26 trucks which were held at the Nimule Border betweeen Uganda and Republic of South Sudan. On 8th July 2023, a delegation from both Uganda and South Sudan met for a discussion to resolve these issues. The meeting resolved to have all the 92 trucks to be released starting with all the trucks that were at the border post. After the 23 trucks were released, they were currying 27 consignments and 5 of them had aflatoxins and the rest of the 22 consignments were okay. By 18th July 2023, part of the 66 trucks were still coming into Uganda and would be sampled for testing at once. However, despite the return of the trucks, traders and truck owners have a considerable loss as most other were held for close to two months.

Uganda's farmers believe this is a very unfair practice and do not put into consideration the value chain disruptions and consequently the losses it is creating.

7.2 Trade between Uganda and Kenya (trade in maize, sugar, milk and eggs)

Ever since March 2023, the Kenya Dairy Board (KDB) has failed to renew over 80 import permits for Ugandan companies producing powdered milk to Kenya. This action led to reduction in the unit price of milk from Ushs 1500/= in March 2023 to Ushs 400/= in May 2023[19] and currently at average price of Shs 700 per litre[20]. Kenya also changed its positions on trade with Uganda on eggs by introducing an import levy of Ksh72 ($0.6) and the equivalent of Ushs 2500 per tray

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[18] https://pachodo.org/latest-news-articles/news-from-various-sources/41314-majority-of-contested-grain-consignments-to-south-sudan-pass-aflatoxin-test

[19] The East African May, 20 – 26, 2023: How Kenya's political games are hurting EAC Common Market Pp. 4-5.

[20] PSFU Primary data collection.

of eggs[21], a decision that affected the growth rate of the poultry population which was growing at 9.6% by 2017 (UBOS, 2018)[22]. The further affected over 720,000 people[23] directly employed by the poultry sub-sector and over 4.5 million people benefiting from the livestock sub-sector who are playing different roles in the value chain[24]. Additionally, in 2021, Kenya decided to reduce the importation of Ugandan sugar by **79%** from the initially agreed 90,000 tons to 18,923 tons of sugar and stopped the import of sugarcane. This decision led to a loss to sugar manufacturers who had stored sugar worth **US$ 50 million** and over **6,000 tonnes** of sugarcane on **150 trucks** were left rotting[25]. An estimated 40,000 households, employing about 640,000 laborers were affected by the Kenyan decisions[26]. Further, Kenya restricted the import of Ugandan maize to Kenya in 2021 where aflatoxins were given as a justification. This decision by Kenya affected Uganda's maize exports earning from **US$ 92.11 million** in 2020 to **US$ 52.07 million** in 2021 (UBOS, 2022). All these distortions by Kenya on maize affected over **4.26 million** households engaged in maize production (UBOS, 2019).

7.3. Trade between Uganda and Rwanda (Non -issuance of import licenses by the Rwanda Food and Drug authority).

Ever since November 2022 when the distribution partners for Uganda Breweries Limited (UBL) products in Rwanda products (ERI Rwanda limited, SOCODIP Ltd and Crane Imports and distributors ltd) applied for import licenses to enable them trade in Uganda Waragi, Bond7 and Gilbeys stocks, Rwanda Food and Drug authority has declined to advise on the status of the import licenses. The failure to import UBL products into Rwanda has been persistent ever since January 2022 when the Katuna Boarder was opened and this situation has heavily impacted the business operations for UBL in Rwanda.

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[21] https://www.theeastafrican.co.ke/tea/business/kenya-fresh-tax-on-uganda-eggs-sets-stage-for-trade-war-3846726

[22] Poultry Training Manual for Extension Workers in Uganda 2019.

[23] Poultry Association of Uganda 2022.

[24] Private Sector Position on the abrupt taxation and execution of the import duty of 10% and vat 18% on animal feeds and premixes by the Uganda Revenue Authority (URA).

[25] https://www.monitor.co.ug/uganda/news/national/what-kenya-s-ban-on-brown-sugar-cane-means-for-uganda-1900174

[26] https://www.monitor.co.ug/uganda/business/prosper/is-prosperity-eluding-sugar-industry--3954968

PSFU proposes that to avoid similar situations from happening,

i. All the food being exported both regionally and internally markets should be accompanied with Certificated of Origin and Certificate of conformity possible with the Uganda National Bureau of Standards (UNBS) test results.
ii. An active technical working committee composed of Bureaus of Standard Customs Officials, Foreign Affairs, Ministries of Trade, Private Sector Exporters, office of the President and the from both countries to be established to meet regularly and resolve all emerging trade issues before escalation.
iii. The Partner States should expedite the finalization of the Amendment of the EAC Elimination of Non-Tariff Barriers Act, 2017 and its regulations to bring into force the Act by 1st October 2022.
iv. EAC summit heads of state should prioritize the elimination of the existing NTBs as they impend trade.
v. Government needs to engage the EAC secretariat to activate the EAC disputes settlement mechanism.
vi. Government needs to address the prevalent NTBs with the key export markets while also prioritizing investment to improve the competitiveness of the exports.

8.0 Conclusion:

The business environment is optimistic given the increasing consumer demand. However, the Government will need revise the economic growth strategy by considering structuring demand to stimulate production and improve purchasing power- amongst the population. The PSFU Advisory Council and its members are therefore called upon to take note of these matters and to offer any guidance they deem necessary.

END