Plot 43, Nakasero Road
PO Box 7683 Kampala, Uganda
Tel: +256 312 263 850
psfu@psfuganda.org.ug
www.psfuganda.org

SUPPORTING UGANDA'S BUSINESS ENVIRONMENT AND PRIVATE SECTOR'S COMPETITIVENESS

PRESENTED TO

H.E. GEN. (Rtd.) YOWERI KAGUTA TIBUHABURWA MUSEVENI

PRESIDENT OF THE REPUBLIC OF UGANDA

PREPARED

BY

PRIVATE SECTOR FOUNDATION UGANDA (PSFU)

NOVEMBER 2023

1. Your Excellency Our President
2. Honourable Ministers and Ministers of State
3. Captains of Industry and my fellow Chairs of Organizations
4. Ladies and Gentlemen

As Uganda's apex body for the private sector, PSFU embodies over 320 associations and corporate bodies, through them we represent over 3.5 million business enterprises in Uganda. Our key roles can be described as 4, namely Policy advocacy with Government on behalf of our members, creating employment, particularly for the youth, Business development services and training for our member and strengthening our member organizations. We have done all of this in partnership with the Government since 1995 and across 12 key sectors.

PSFU is aligned with the Vision 2040, and we are committed to supporting the transformation of Uganda into a modern, prosperous country by 2040, emphasizing the private sector's role in creating 77% of the formal jobs, 80% GDP contribution, and 80% domestic revenue generation.

To achieve this, we urge Government to assist in these key Strategic Focus Areas:

- **Tax Regime Stability:** PSFU requests that Government maintains their tax regiments for five year cycles. This shall enable investors to plan better and be assured of a stable tax environment in which to invest. We also urge Government to harmonizing the 12 tourism-related taxes and license fees and reduce these. We also ask that you to ease the financial burden on startups to promote youth investment.

- **Digital Tax Stamps:** There is a call to re-evaluate the DTS regime due to the high costs burdening manufacturers, with a proposal for the government to absorb these costs. For instance, the average cost of the automatic/applicator machine is UGX 20 million to 431.75 million. The cost of this should ideally be bourne by the government.

- **Domestic Arrears:** PSFU highlights the issue of delayed payments, amounting to UShs. 2.5 trillion, with over 115.67 billionof this for Tea Nursery operators in Kigezi and Ankole Sub-Regions. PSFU is urging the government to allocate sufficient resources for clearance and timely payments to suppliers. Late payment of government suppliers has negatively affected their participation in government procurement with only 16% participation by local companies.

- **Late payment of local suppliers in the oil and gas sector:** We have noted with concern that local contractors in the Oil sector are having to wait on average up to 90 days for tier one contractors to pay local suppliers. This has affected the ability of local companies to access to credit and hindered their performance in the oil and gas sector. PSFU's proposal includes creating a Petroleum Fund in Bank of Uganda to support Ugandan suppliers in the oil and gas sector. It is important that Ugandans adequately participate and benefit from the development of our Oil resources,

- **Affordable Credit:** Uganda currently maintains one of the highest commercial bank lending rates in the EAC i.e., 18.4% in August 2023 compared to Kenya's 13.5% and Tanzania's 15.56% in the same period which impedes private sector competitiveness. PSFU identifies the need for government investment in vehicles that can avail patient capital to the market. At PSFU we are currently in the process of setting up the PSFUCatalytic Fund to enable private sector access to cheap and patient capital. We also propose the capitalisation of UDC to enable them buy equity in private companies as an alternative way to raise capital.
- **Standardization and Trade Laws:** According to the Anti-Counterfeit Network, over 40% of the agricultural seeds and 60% of herbicides and pesticides on the market are fake. It is also projected that Uganda loses UShs. 6 trillion to sub-standard and counterfeit products annually, while the local manufacturing sector loses UShs. 4 billion annually to trade in fake goods. PSFU urges the enactment of an anti-counterfeit bill and strengthened enforcement of standards to protect against counterfeit goods.

- **Enforcement by URA.** Our members have noted with concern, the URA practice of issuing agency notices against businesses as a measure to collect taxes on behalf of Government. This practice is has far reaching consequences to businesses and as the Private sector we feel that it should only be used as a measure of last resort. We propose that URA leans on dialogue first with taxpayers to ensure that cooperation is sought in a reasonable manner. Continued use of agency notices has resulted in a shadow economy developing, discouraging many companies from being tax compliant and affecting their operations and cashflows.

Specific Sectoral Issues and Recommendations

Trade and Commerce Sector

- **Persistent Tariff and Non-Tariff Barriers (NTBS) on Ugandan Products**. Kenya's ban on Uganda's milk has affected the prices of milk from over 4.2 million households involved in the sector, causing more than 40,000 direct job losses and the prices of milk per litre reducing by over **375%** from Ushs. 1500/= in March 2023 to Ushs. 400/= in May 2023 (The East African 2023).
- South Sudan blockage of trucks carrying over 1,700 tons of Ugandan maize led to losses valued at UShs.7.5 billion. The tariff barriers imposed by Kenya on Ugandan Products (35% Excise duty on LPG gas cylinders; 25% excise duty on table eggs imported table eggs; 25% Excise duty on imported onions, potatoes, potatoes crisps and potatoes chips; and 25% Excise duty on paper.

  PSFU recommends that the Government of Uganda engages the Government of Kenya to expedite the stay application of tariff and nontariff barriers on Ugandan exports to Kenya. The Government should also encourage the government of South Sudan to recognize the testing results issued by Uganda authorities i.e., UNBS and URA under the Mutual Recognition Agreement of the EAC.

Furthermore, the EAC Summit should implore Partner States that have not yet ratified the amendment Article 24 (2) of the EAC Customs Union Protocol to do so to pave the way for the operationalization of the Trade Remedies Committee.

Transport and Logistics Sector

- **Improving the state of Uganda's logistics industry:** According to the Logistics Performance Index (LPI), Uganda ranks 102nd out of 139 countries. In the average Industry, transport, and logistics expenses alone account for **17.4%** of the manufacturing firm's cost. The transport margins for industrial goods are equally high with estimates ranging between **40%-50%,** while the percentage of transport costs to the total cost of products in agriculture is estimated at about 47**%.**

PSFU recommends that the government leverages Public-Private Partnerships to invest in trade-facilitating logistics like the One Stop Logistics Center and the National Integrated Logistics Platform Project.

Agriculture Sector

- **The reduction of Uganda's high import bill of agricultural seeds semen, eggs, ova, embryos**: As of October 2023, Uganda's Agricultural seed import shipments in Uganda stood at **68% imported versus 32% locally produced.** The imports were done by **22** Uganda Importers from **24** Suppliers (Volza Grow Global. 2023). In 2022 Uganda imported **870** shipments of Cabbage seeds, **522** shipments of watermelon seeds, **191** shipments of tomato seeds from India (USAID, 2023). 1,060 tons of maize seed(from South Africa and Zimbabwe) and 13 tons of sorghum from Israel and Kenya (Volza Grow Global. 2023). Uganda's agricultural seed dependence stems from the fact that there are only **35** certified seed companies in the country producing an estimated **18,000** metric tons of seed which represents a dismal **30%** of the seed requirements for the local market (New Vision, 2019).

  PSFU recommends that the government increase funding to the National Agricultural Research Organization (NARO) and National Animal Genetic Resources Centre and Data Bank (NAGRC&DB) to increase domestic production of high-value agricultural seed and bovine semen respectively.

- **Low prices of Ugandan tea due to overreliance on the Mombasa auction market.** Over **90%** of Uganda's tea is auctioned at the Mombasa Tea Auction, unlike most tea players in Kenya and Rwanda who have emphasized the acquisition of international accreditation certifications to gain direct access international markets for their processed tea. This has subjected Uganda's tea to the mercy of bidders and middlemen who often offer low prices for Uganda's tea. As a result, over **33%** of Uganda's teas offered on the weekly tea auction remain unsold according to Harvest Money. (2023).

  PSFU recommends that the government expedite the cabinet's decision to put in place a tea policy to regulate the tea supply chain. In addition, the government should put in place measures to negotiate bilateral product (tea) agreements with key countries which buy Uganda's tea to reduce the current over-dependency on the Mombasa tea auction market.

- **Need for consistent agriculture production and productivity**: With regards to Water for production, in FY 2022/23, the Government constructed valley tanks and solar-powered Irrigation demonstration sites to increase access to water for livestock and crop production. Currently, large-scale irrigation currently dominates functional irrigation schemes in Uganda or those under rehabilitation, accounting for **76%** of the total area under irrigation (MoFPED 2018). This means that smallholder farmers who make up **80%** of Uganda's agricultural production are left out of the current irrigation model, leaving them to depend on rain-fed agriculture (International Fund for Agricultural Development - IFAD 2020).

  PSFU recommends that the government should prioritize investment in infrastructure for water for production to the level of road transport and rural electrification program by ensuring that water for irrigation reaches the farm level to support the farmers. As a result, small-holder farmers will be able to invest in mini-irrigation schemes and drip irrigation.

- **Improve agriculture extension services**. The current extension worker to farmer ration is 1:1500. This is contrary to the FY 2023/24 AGI programme priorities which aim to strengthen the agricultural extension system among other key priority activities. The current budget cut of the non-wage operational grant, if not corrected, shall render the recently recruited agricultural extension staff at the local government level redundant.

  PSFU recommends that the government should allocate resources for non-wage operation grants at LG for supporting agricultural extension services in the FY 2023/24 budget. This is key to achieving the AGI programme priorities for the FY 2023/24 as well as the effective implementation of the Parish Development Model (PDM). We further recommend that the government should certify private extension workers to offer their services to farmers who can afford them.

Culture and Creative Arts Sector

- **Limited attention paid to the creative and arts industry**: UBOS values Uganda's creative industry at UGX 140 billion (URA, 2023). While the sector has the potential to promote innovation and creativity and create millions of jobs it is still highly informal with limited common user facilities such as Stadiums, Convention Centres, and Studios where emerging artists, designers, musicians, and other creatives can access resources, collaborate, and showcase their work at subsidized rates.

PSFU recommends that the government treats the need to have regional common user hub/facilities as a critical infrastructure to promote the music and film industry. This should be complemented by Tax waivers on equipment, kits and investments in Recreation, Entertainment, sport, and Tourism (REST). Furthermore, the government expedite passing of the copyright law to support innovators, artists, and others to monetize and scale. This should be complemented by the enforcement of national content in all media spaces to promote the country and increase visibility, value, and innovation.

Oil, Gas, Minerals and Energy

- **Increase Uganda's fuel reserves:** The current fuel reserve infrastructure can only accommodate 30 million litres of fuel, which is equivalent to **4.5** days of the country's stock, given that Uganda consumes **7 million liters** daily (Parliament of Uganda 2022)**.** Uganda National Oil Company (UNOC) is yet to finalize the construction of the **320 million litres** of fuel reserve Kampala Storage Terminal (KST) (UNOC, 2023).

  PSFU recommends that the Government fast-track the construction of the Kampala Storage Terminal to complement the existing oil reserve in Jinja which can only store 30 million litres. Furthermore, resources should be availed to the UNOC to construct more storage terminals for sustainable fuel supply and prices as Uganda gears towards construction of an oil refinery.

- **Underutilization of Uganda's mining potential:** according to recent reports (the New Vision of Monday, August 9, 2021, p. 20,) Uganda's Minerals investment opportunity is valued at US$ 620.5 billion and US$ 2.482 trillion with value added. The mining sector is currently dominated by artisanal and small-scale miners.

  PSFU recommends that the government fast-track the establishment of the national mining company and regulations for artisanal miners, carry out more geological surveys and enforce the operationalization of licenses issued to private players.

- **Access to power challenges:** There are also still major challenges regarding access to power with only 20% of the households nationally having access to the electricity grid (55% for urban and 8% for rural) (MoICT (2023). Furthermore, energy costs contribute about 15% of production costs; and in some SMEs, this can be as high as 35%. The electricity tariff in Uganda is on average 9 US$ cents KWH for low-end users and 5 US$ KWH for high-end users compared to Kenya which has improved to 7 USD cents KWH for both high- and low-end users.

PSFU recommends that the government should expedite the implementation of the Electricity Access Scale-up Project to achieve the target of delivering about 1.3 million last-mile connections on both the grid and off-grid. Furthermore, the energy tariff should be reduced to 5 USD Cents/KWH for both high-end and low-end industrial users according to the Ministry of Energy and Mineral Development. To realize the planned energy mix, the government should fast-track the feasibility studies for Uganda's geothermal potential among other energy alternatives.

Tourism and Hospitality Sector

- **The poor state of strategic tourism infrastructure;** While the tourism sector has made significant contributions and has the potential to contribute more, there is still a need to improve the tourism infrastructure in the country. Uganda's infrastructure mainly the roads leading to the tourism circuit, Air transport, hotels, internet, and electricity among others await urgent prioritization. For example, while 51% of tourist revenue comes from the sale of gorilla permits. The distance from Entebbe to Bwindi is about 502 kms and takes about 12 hours while using road transport. Furthermore, from Hamurwa (Kabale-Kisoro Road) alone takes over 4 hours to reach Bwindi because of the very poor state of the roads. It is also important to note that Bwindi and Mgahinga alone attracts over 60% of the total national income from tourism. To put this into perspective, a Gorilla Trekking permit in Uganda is US$ 750 while a National Park Permit costs US$ 40. What this means is that, out of 1 international tourist in Bwindi or Mgahinga, you need about 19 tourists in any other national park. More so, out of every tourist, over 7 jobs are created. Currently, Uganda has 22 families of Gorillas that have been habituated, each family can be visited by 8 tourists each day. Meaning, each family has the potential to earn Uganda US$ 6000 per day, which totals to US$ 132,000 per day for all the 22 families. This potentially comes to US$ 3,960,000 per month and US$ 47,520,000 per year (UGX 178.2 billion) only from our permits. We need to improve our infrastructure in these areas to be able to reach our full potential.

PSFU recommends that the government should urgently free up resources for UNRA to ensure the construction and maintenance of tourism roads including internet hotspots and aerodromes at regional and international required levels. For Bwindi, the priority should be on the construction of a runway to accommodate big passenger planes to cut the time of travel (from Entebbe to Bwindi) from 10 hours to 45 minutes.

Human Resources (Skills, Health, and Education)

Investing in sports infrastructure: According to the NDP III, well-educated, skilled, and healthy human resources are essential to facilitate development. However, the education sector currently faces resource constraints to nurture talent in sports and supporting infrastructure. This has limited supplies of sports instructional materials and equipment, and risks stifling the growth of the sports sector.

PSFU recommends that the government should attract both domestic and FDI targeting Investment in the sports sector infrastructure and establish common user sports facilities in at least every subcounty.

- **National Health Insurance Scheme:** According to UBOS, the major constraint of 78% of the private health businesses in rural areas is lack of financing specifically to purchase equipment and for working capital needs due to high-interest rates (over 24% pa), high collateral requierments, and short loan tenures. To access financing 16% of private health businesses, borrow from commercial banks, 12% from friends and family, 6% rely on supplier credit and 4% use money lenders (UBOS, 2020).

PSFU recommends that the government fast- tracks the national health insurance scheme. This will enable more investment in HR, Equipment, Facilities, and innovation and Uganda will work toward becoming a medical tourism destination.

Information Communication and Technology (ICT) Sector

- **Increase access to fiber network to the last mile.** Uganda still lags regarding the primary infrastructure necessary to spur digital transformation, the internet penetration rate is at an average of **43%** while **94%** of households have no internet access. Furthermore, access to fiber nodes (where users can be connected) is low with only **29%** of the population living within **10km** of such nodes.

- **PSFU recommends** that the government should expedite plans to extend broadband connectivity to the parish level and last mile connectivity to expand access to affordable high-speed internet through the National Backbone Infrastructure. According to the International Telecommunications Union (ITU), a 10% increase in broadband penetration yields 1.4% in GDP growth.

- **Double taxation of Business Process Outsourcing (BPO) Services.** URA imposes a Value Added Tax on the entire cost of BPO including on salary and management fees. Yet, there are taxes on the salary such as PAYE, NSSF and Local Service Tax. This therefore creates to double taxation. **PSFU recommends** that VAT be imposed on only management fees just as it is done in both Rwanda, Burundi, South Sudan, and Tanzania.

Construction and Real Estate

- **Need to review the Rental Income Tax regime**. The construction sector has the potential to plug the existing **8-million-unit** housing shortage (ITA 2023). However, the sector is facing an unsupportive tax regime under the Income Tax Amendment Clause 5 (1a), whereby effective FY2022/23 and onwards. Companies earning rental income will claim expenditures and losses capped up to 50% of their gross rental income and without carrying forward any excess expenditures and losses. There are moreover, other taxes such as property tax, and rental service tax by the local governments which have increased the cost of housing in Uganda.

  PSFU recommends that interest should be fully tax deductible over and above the 50% cap for the survival of the industry, particularly for the large investors in the high-end real estate and this will attract venture capitalists and Foreign Direct Investment (FDI). Further, we urge the government to provide incentive schemes like long-term financing, tax incentives on building materials to catalyze investment in the housing sector. This will result in affordable housing, organized living, and reduced costs of service delivery.

Conclusion

PSFU appreciates the government's receptiveness to our proposals and stresses the importance of implementing clear monitoring and evaluation mechanisms to ensure effective policy actions and promote private sector growth. We believe that together we can transform the economy of Uganda and improve the livelihoods of all its citizens.

We thank you your Excellency.