SUMMARY OF KEY PRIVATE SECTOR PROPOSALS FOR CONSIDERATION
FOR FY 2020/21 BUDGET

PRESENTED TO

MINISTER OF FINANCE, PLANNING &
ECONOMIC DEVELOPMENT

BY

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1.0 Introduction

2.0 Key Cross-Cutting Challenges:

While implementing various mechanisms that are aligned to private sector development-business linkages and using the lead firm model approach to deliver growth with job creation especially for young men and women, 12 key areas have been identified as priority for policy action in the FY 2020/21 budget policy, however out of these, five (5) issues have been **reprioritized** and they include;

1) Skills and attitudes for labour productivity,
2) Access to affordable financing
3) Market penetration (local content, and export marketing)
4) Taxation, licenses and fees policy regime and
5) Corruption and Governance,

It is expected that policy improvement in these areas will contribute significantly to the sector growth leading to job creation, check macroeconomic parameters manage debt burden and attract more FDI inflows to the economy. The other 7 priority areas also need attention to support actualization of the above.

2.1 Human Capital development- Skills and attitudes for labour productivity:

The importance of a well-educated and highly skilled labour force cannot be overemphasised. Any economy with an unskilled labour force cannot develop as it is unable to make products that are internationally competitive. The private sector in Uganda has over the past years demonstrated that there is a serious skills gap in nearly all subsectors by importing labour for certain positions including of low-level cadres. This is despite the well-known high unemployment level in the country, particularly among the youth.

Traditionally, there has been a lot of supply driven approach to skills development through public sector institutions, Universities, Colleges and BTVET. The BTVET policy, Apprenticeship policy and development of Sector skills councils have also been anchored on this premise but with limited efforts rendered on soft skills. “Concertation has been put on employability skills but limited concertation has been put on trainability”. According to the PSFU Skills Needs Assessment report, 2019, skills and attitude is a symptom of lack of proper employment and labour Governance systems in the economy. The available labour force is not well aligned to the needs of the sector and the education system is not addressing the interest of the private sectors where they are required to work. The World Bank and GoU support for skills development under SDF has made significant strides to this, however more work needs to happen at earlier stages of learning to support development of a labour force which is trainable. The un favourable business environment mainly explains why businesses find it hard to employ and sustain skilled labour in their businesses.

Human capital development is not well integrated in to the human development plans in the economy. Limited concertation on early childhood development, nutrition and parenting to support the development of cognitive skills with in the population. Internship and apprenticeship programs are not driven by the labour demands and are therefore rendered inefficient by the private sector because of the nature in how they are considered. The private sector therefore recommends that;

a) A clear Human capital development concept is developed in the economy to inform the labour demands that are desired by the economy and the future demand required to foster industrialization.
b) Skills development needs to be driven by the private sector in such as way that will address employment governance issues
c) Improve the business environment to support the private sector be competitive and employ and sustain more skilled labour force
d) Special focus needs to be put on building foundation skills, cognitive skills through proper ECD policy implementation and priority and
e) Revamp the current internship and apprentship program to suit the demand s of the private sector. This can be done through increasing the internship period to about 6 month and conducted towards the end of the education program of the student.

f) Company based competency based trainings programs needs to be recognized and supported to spur growth.

2.2 Access to affordable finance- Credit, Interest rates and Venture Equity:

The financial sector in Uganda is still relatively small. Private sector credit to GDP stood at 14.95% in 2018 (World Bank, 2019), while the sum of banks deposits to GDP stood at 16.85% in 2018 (World Bank, 2018). Especially private sector credit, which averaged at 48.33% of GDP in 2017 in Sub-Sahara Africa, is very low (World Bank, 2019) in Uganda. The very low credit growth is largely attributed to banks' risk aversion, with banks opting to invest in government securities. As a result to their reluctance to lend, lending rates remain high.

Credit Institutions (CIs) and Microfinance Deposit-taking Institutions (MDIs) were largely adequately capitalized during 2018. However, the profitability of CIs increased in the year to June 2019. At the same time only two of five MDIs were profitable. Overall, there is no systemic concern, as assets of MDIs and CIs are only 1.8% and 2% of all assets in the banking system.

The retirement benefits system in Uganda consists of public mandatory and voluntary schemes, voluntary occupational schemes, and informal sector workers schemes, all of which are regulated by Uganda Retirement Benefits Regulatory Authority (URBRA) established in 2012. Albeit from a low base, the retirement benefits sector has been growing rapidly with retirement benefits assets at UGX 11.7 Trillion in September 2019, which almost doubled from UGX 5.2 Trillion in 2014. Retirement benefits asset to GDP ratio stood at 10% which compares behind 14% in Kenya and 11% in Tanzania. Retirement benefits coverage is also improving to reach Ugandans standing at 14% in 2017 from only 6% in 2014. However, this is still short of 20% coverage in Kenya although larger than 10% in Tanzania.

Ugandan capital markets are small, with decreasing activity. For the period of 2010 to 2018, capital totaling to UGX 856.88 billion was raised through capital markets in Uganda and domestic market capitalization rose from UGX 2.02 trillion to UGX 5.33 trillion in the same timeframe, largely thanks to the improved economic performance. There are 17 companies listed on the Uganda Securities Exchange (USE) with around half of them cross-listed on the Nairobi Stock Exchange (NSE) in Kenya and there is very low awareness in the public of the opportunities presented by the Capital Markets. Key challenges in capital markets include: a rigid legal and regulatory framework, limited supply of securities and costs of issuance (CMA, 2017) and poor governance nature of the companies that inhibit equity financing.

Interest rates for commercial lending do not respond to the changes CBR. Domestic Savings are still very low at 15.6% (World Bank). The Financial sector structure has about 25 Trillion and about 60% is available for short term lending and only about 10Trillion is available for long term lending, this is not sufficient to support government borrowing especially with the low tax to GDP level of 14%. This crowds out the private sector in the financial sector. The Private sector therefore recommends:

1) Expedite the enactment of the NSSF (Amendment) Bill 2019 with emphasis on boosting a robust savings from the private sector including the formal and informal sectors
2) Enact the Government Pensions Scheme bill, 2019 with concentration on better transition risk management of the liabilities at hand. This will bring also the Government workers into the contributory schemes which in turn boosts savings in the economy
3) Consider guarantee schemes especially for the key priority sectors required to foster industrialization. This scheme (s) could take a 50:50 risk sharing between the commercial bank and the borrower.

4) Support interventions that help derisking borrowers' including standardizing BDS service provision and strengthening linkages to help improve the credit worthy of the private sector/ borrower.

2.3. Market penetration (Local content, and Export marketing)

Local Content: 60% of the national budget is developmental. Unfortunately 70- 85% of these resources do not stay in the economy to stimulate growth. We think that procurement should be used as a tool to stimulate growth especially where goods and services meet the required standards and where they are lacking government should support development of this capacity. While appreciating the good regulations achieved in this area, the recent change of the local procurement preference to put powerful and strong foreign companies to benefit equally from the preference schemes have actually turned to support the few companies. The Minister of Finance amended the 2017 guidelines in March 2018 and just rendered it not useful to stimulate the private sector as was expected.

Implementation of the local content policies and regulations is yet to reach a level where investments are prioritized. PSFU will build or establish a special purpose vehicle that will be able to compete competitively with other farms especially the foreign firms.

Export Markets: Uganda received 3.1 billion USD in exports in 2018 of which 80% were agriculture related. Uganda's main export partners are Sudan (15 percent), Kenya (10 percent), DR Congo, Netherlands, Germany, South Africa and UAE. The EU and Asia market provide the most lucrative prices however they require conformity to international food standards. It is recorded that a total of more than 400 interceptions of various products in the fresh fruits and vegetables sector destined for EU market between 2012 and 2016. This is accrued to failure to comply with the required food standards and other quality issues. African markets (Sudan, Kenya, Rwanda, DR Congo etc) are more reliable however are challenged by the constant NTBs and infrastructure breakdown which inhibits the exports competitiveness. Domestically, food safety is highly required by the growing standardized markets in supermarkets and hotels, however it is not well observed by the local producers. This if well observed would be used as a means of raising capacity to sustainably produce for the export markets. The Food and nutrition safety strategy, 2005 was written in the interest of the health fraternity but limited on the side of industry development. This therefore is not well linked with the industry growth and health conservation.

To address the above mentioned constraints, the Private Sector Foundation Uganda recommends:

I. Amend the guidelines to ensure that the big companies are supported and the smaller companies are also pulled to benefit.
II. Support training of MSMEs to be able to effectively participate in public procurement through bidding.
III. Enact the necessary laws in parliament especially, local content bill 2017 and Uganda Construction Industry Commission Bill, 2017 to enforce the local content policies and regulations.
IV. Prioritize food safety and its required implementation modalities in the national planning agenda. This will required a specific national strategy that is linked with domestic markets (industry and consumption) and the export markets. This should be implemented in a multisector dimension including MoH, PSFU (sector associations), UEPB, UIA and led by MTIC.
V. EAC regional integration: address the infrastructure concerns that inhibit market penetration especially with DR Congo and the EAC region, health, labour mobility and security also need to be prioritized through the bilateral arrangements. Where necessary, DR Congo should be brought into the EAC to ease the trade and priority of Uganda products.

2.4 Taxation, licenses and fees policy regime:

Taxes are vital for Government revenue to enable it provide services and amenities that stimulate growth. These combine well to support further growth in the economy. The private sector is the biggest source of that revenue. But high rates of and multiple taxes can impede enterprise growth. Increasing tax is not a function of actions from the tax administrator, but rather from the growth of the economy**.** This contradiction needs to be managed well to achieve the revenue government requires while at the same time facilitating the private sector to contribute to economic development in an effective way. Regional tax is not well consulted with several sectors not fully consulted and represented.

The following are some of the principles which may ensure that the above contradiction is managed well:

I. The tax regime should be predictable to enable proper planning and implementation of investment plans by enterprises. Intended changes thereof should be given lead times of 2 to three years so that enterprises can adjust adequately

II. All businesses and individuals who are supposed to pay taxes must pay taxes without exception and at the same rates. Exemptions for specific companies distort competition and should be avoided.
III. Levies, Fees, Cess should be discouraged as a source of Government Revenue and where they are used the Private sector needs to be in control of the management of this levy, fee of cess.
IV. Structure for CET consultations at national level needs to be established to cater for the issues of the various stakeholders.

2.5 Governance and Corruption:

Despite the many Government anti-corruption initiatives over the years, desired results particularly in the reduction of corruption has not been realised. Indeed Transparency International indicates that perception about corruption in Uganda has deteriorated. The exact cost of corruption for Uganda is difficult to establish but the 2005 and 2006 estimates (World Bank and The Global Integrity Report) suggested that at that time, Uganda lost between 200 and 250 million USD/year due to corruption. Further corruption distorts markets, threatens quality of life because of compromised quality of goods and services, and affects national resource allocation, and as a result has a negative effect on the overall investment climate. Stakeholder consultations affirmed that there are no meaningful anti-corruption efforts/initiatives led by the private sector. It was also noted in spite of all government efforts, corrupt practices still exist in the Government's procurement system and processes. Part of the problem lies in a system that is not as transparent as it could be. And in addition there are many examples where perpetrators of corruption benefit economically from their deeds. The general perception is unfortunately that corruption pays.

The impression one gets on corruption in Uganda is that traceability of illegally and corruptly acquired assets and wealth is difficult. The private sector is of the view that it is possible to use available public IT databases to reduce the risks of illegally and corruptly acquired assets being hidden. PSFU therefore recommends/ proposes:

a) PSFU will set up a private sector led Whistle Blower facility, which will provide anonymity to the private sector businesses, operated and managed by PSFU to collect and consolidate the private sector experiences on corruption that will be used as evidence for engagement with various MDAs and could also be published on a quarterly basis for the public consumption.
b) To accompany the Whistle Blower facility above mostly through the dialogue described later, the PSFU will seek to improve the public procurement system by ensuring that public tenders are advertised, bidders and public servants are trained in

the use of the new e-procurement system. By carrying out these activities, existing loopholes created by limited tender publicity, poor capacity of tenderers to prepare responsive bids and use of the e-procurement system will be addressed

c) GoU needs to review the current legislations to ensure, that the various public databases communicate with each other. Among such databases are the Companies Registry at URSB, the Land Registries, the NIRA, UCC and NITA.

Other Key Priority areas/ Issues

2.6 Legal and Regulatory Environment:

An enabling environment is required to facilitate the investments of the private sector. This includes necessary Gorvement policies, regulations and laws. It takes a long period of time for Government to enact laws and develop policies that are critically required by the private sector to grow. Some critical commercial bills such as local content bill, completion bill, and coffee bill, Landlord tenants, Cooperative bill, among others have stayed for long without being enacted and some of the enacted ones require regulations to operationalise them. Several other desired policies and regulations required by the private sector take too long to be developed. Several other sectors lack policies to govern their operations, a number of these were highlighted in the PIMA strategy.

The legal framework for access to Land for investments is not robust enough to ease investments. For example, the mining and extractive sectors, floriculture sector are challenged in carrying out upstream activities like mining and value addition process. The issue of land needs to be resolved. Even where an investor is to purchase land from locals, it may be better for Government to find a mechanism which guarantees predictability in use of land where leasing is concerned.

Additionally, consultations and engagement of the private sector from the GoU have greatly improved during policy review and development however we are almost missing when it comes to policy implementation and this affects the efficiency of the policy implementation. During law reforms, the private sector is continuously engaged to make submissions on these bills however, we are not party to the decisions made thereafter. PSFU recommends;

a) The Private sector needs to be more involved in the policy implementation especially sector related policies must provide a role for the sector associations to play to ease efficiency and sustainability
b) There is need to expedite the process of law making especially through parliament and the various ministries including cabinet.
c) A defined periodic engagement between the speaker of parliament and the private sector leadership is required to better shape law formulation and also expedite the process.

2.7 Infrastructure, Water for Production, Energy, Roads, Water Ways.

2.7.1 Infrastructure for water for production in agriculture*:*

The private sector notes that support for infrastructure development (transport, energy) remains key in reduction of production costs as has been highlighted in the previous years. However, with the present climate change effects, rain fed agriculture can no longer guarantee and determine agricultural production as has been the case. Moreover, serious modernisation of agriculture cannot be realised with outdated complete reliance on nature. FY 2019/20 only 218bn. was allocated for water for production compared to the 6,460 bn. allocated to other infrastructure. This clearly depicts the lack of prioritization of the infrastructure for water for production at farm level. The private sector therefore proposes that:

i. As a long-term objective/target, Government should prioritize funding the infrastructure for water for production to the level of road and energy infrastructure. Given the unpredictability of weather patterns blamed on climate change, it would be unwise to not plan for mitigation now to guarantee future national food security and export earnings.

ii. Implement the irrigation policy through PPPs to provide better extension services and economic related information on irrigation technologies to the agriculture sector.

iii. Research in irrigation technologies should be prioritised and given adequate funding. This would be in line with proposals made elsewhere in respect to supporting agricultural value chains.

2.7.2 Energy (Prices, Access and Efficiency):

Energy continues to play a significant part in the cost of production in Uganda. According to UMA report 2017, energy costs contribute about 15% of production costs; and in some SME's, this can be as high as 35%. Some countries which compete with Uganda either in the domestic market or export markets have much lower energy costs as part of overall production costs. They range from 2-8% and include: India, Egypt, China, and South Africa. The electricity tariff in Uganda is on average 11 USD cents per kilowatt hour for low end users and 5 USD cents per kilowatt hour for high end users compared to Kenya which has improved to 7 USD cents per kilowatt hour for both high and low end users. Energy quality is also predominately reported as a challenge to industry as it increases the costs of production which discourages value addition.

Despite the, various opportunities availed through GoU expenditure and the fairly well crafted Local content policies and reservation schemes, the private sector is still not effectively participating. Therefore, Uganda needs to ensure that the business community is competitive especially domestically and regionally. **Private sector recommends**;

I. Target reduction in costs to achieve a 5-7 USD cents/kilowatt hour tariff for energy to all manufacturers. This needs to be achieved in a timely manner that is consistent with the various trade agreements that we are committed to.
II. Strictly implement local content guidelines when procuring items used in big Government infrastructure projects (dams, railways, oil pipeline, etc). This should be expeditiously worked on for the cable sector.
III. Government should continue concentrating on ensuring connection (especially for 3 phase lines) and energy efficiency is achieved especially under the rural electrification development program. In this regard, special emphasis should be put on energy for production.

2.7.3 City Transport:

Traffic jams and congestion in the city make it costly to distribute goods and deliver services. But it also makes labour mobility more difficult thus negatively affecting its productivity. The World Bank reports that traffic jam cost the economy over US$800m (over sh2.8trillion). PSFU further estimates that currently productive labour spends about 52 man-days in the traffic jams in a year. That is more than 2.3 months. Furthermore, more fuel tends to be used in the jams and this collectively accounts for the increased operational costs and over heads making transport costs generally high. The commuter taxis are forced to charge expensively thereby forcing thousands of would be productive labour to walk long distances which affects their productivity. The introduction of city buses has been slow with no major impact as only a few routes are served, and the buses are themselves low capacity vehicles. The private sector reiterates some earlier proposals as follows:

i. Government should support KCCA to develop the city road infrastructure which minimizes traffic jams.
ii. The city rail facility development targeting light but efficient rail system should commence as soon as possible. The project of the standard railway gauge could be revisited to support the rail system in GREATER Metropolitan Kampala in the long run. In the short run the current railway system, be used to evacuate and also bring in passengers during peak hours.
iii. Introduce a more sustainable bus system in the city: To this end, the KCCA could implement a PPP approach where KCCA develops a plan for city bus transport with clear regulations and invite the private sector to invest in the required buses.

2.7.4 Waterways, ferries and Air Transport:

Government continues to support investments in ferries, this is commendable. However, as mentioned in the recent years the ferries management tends to concentrate on passengers and not cargo. The safety elements also require further improvement. There is need for improved water transport in the lakes especially Victoria and more so to link the southern route of the railway to Dar es Salaam, Port Bell and Jinja piers with Kisumu, Bukoba and other major commercial centres in both Kenya and Tanzania.

A barge should be planned to facilitate the oil & gas industry on Lake Albert to connect to the Packwach railway line.

Lake Victoria could become a huge growth area if regional partners built a ring road around it and supplied it with energy. It would promote tourism and other services given that about 25% of the total population of the EAC resides on the basin and shores of Lake Victoria. This is an important investment area for Uganda and the region. The Government of Uganda in partnership with other EAC countries like Tanzania and Kenya should fast track the optimisation of the Lake Victoria inter-country water transportation potential.

Air transport: the launching of Uganda Airlines is very welcome to the private sector but it must concentrate on cargo than passengers and critical routes such as Kinshasha, Asia and European countries where Uganda exports its products are critical to be considered.

2.7.5 Roads:

Uganda's infrastructure mainly the roads leading to the tourism circuit, Air transport, hotels, internet, and electricity among others await urgent prioritization. Key roads within the tourism circuit e.g. Karugutu –Ntoroko, Mpigi,-Kasange –Kisubi Mpigi to Buwaya, 22km (Road) and Buwaya to Nakiwogo (by Ferry), Kisubi, Kisoro – Mgahinga National Park gate 62km, Kanungu – Ruhija, Katunguru – Ishasha – Kihihi – Butokota – Buhoma, Mubuku – Ibanda – Nyakarigija, Kyenjojo – Kagadi – Hoima – Masindi, Masindi – Kimanyombo (Murchison falls gate) Kidepo – Kabong – Kotido – Moroto, Kumi – Serere (Road) Bugondo – Namasagali (Ferry), Gayaza – Wobulenzi road among others in the country are in need of the urgent attention and prioritization by the Government of Uganda.

2.8 Widening the Formal Sector:

The Uganda economy remains dominated by micro, small and medium enterprises – MSMEs – most of which are not formalised. The problem with this state of affairs is that many of these enterprises are often unable to operate efficiently; are unattractive to financial institutions; cannot meet quality standards or meet supply deadlines. Above all most actually collapse in the first 12 months of formation, and those that survive contribute little or nothing to tax revenue because they are not always easy to reach. This latter aspect means that the tax burden continues to be shouldered by a few formally established enterprises. The private sector believes that it is in the interest of both the Government and of the formalised businesses that the informal sector is gradually reduced with a clear target for the longer term. The Government has done well to ease the burdens of establishing a company at the Uganda Registration Services Bureau (USRB). However, the informal sector does not seem to diminish, and one gets the impression that it continues to grow. It is proposed here to approach this using the following measures:

i. Sensitisation: some enterprises tend to remain informal because they lack information on how to formalise. Other enterprises choose to remain informal to escape the tax net. Yet others are motivated by the perception that tax revenues are not used to the benefit of society. The private sector proposes a partnership to mount a sensitisation campaign with a target to reduce the informal sector by 30% in the next 10 years. This will involve the PSFU, its member associations and public institutions such as URSB and possibly URA. Such a campaign would focus on the advantages of formalisation, the virtues of sharing the tax burden and highlighting the positive contributions of taxes to society at large.

ii. In addition, the private sector proposes a strict adherence to the guidelines for supplying goods and services to public institutions so that only formally established and tax-paying enterprises benefit from contracts to Government entities including local governments of all levels.

iii. All MSMEs (in selected sectors) that become formalised and tax and URSB compliant[1] should qualify for a subsidy to put in place measures that ensure their products meet with quality standards set by the Uganda National Bureau of Standards. The PSFU and its members on their part would promote the linkages between those MSMEs with larger enterprises in (and depending on) the specific value chain.

2.9 MSME Development:

MSME's constitute about 90% of private sector enterprises, and are both formal and informal in terms of operation. With a great role SME's play in economic development, they are faced with many obstacles to competitiveness including but not limited to: high cost of finance and constrained access to credit; lack of acceptable collateral; limited sources of long term finance; and limited information on financing products. Therefore, to maximise the contribution made by these SME's to Uganda's development, there is need to: build firm capacities, confidence, transparency and responsiveness to policy and the market systems and to make it easier, cheaper, faster and more user-friendly for new businesses to register. Schemes targeting SMEs should be developed to enable them to improve, expand and prosper. The private sector has the following proposals to Government:

Quality & Standards: UNBS should be capacitated to support quality development, monitoring and ensure quality regime is maintained in Uganda to spur competitive and safe environment in the economy. Increase the budget allocations to agencies such as UNBS to enable them to support the private sector and SMEs better.

[1] Tax and URSB compliance is not necessarily the same as paying your taxes. It may mean just declaring profits or losses to URA and filing annual returns to the URSB.

Public Procurement: Support SME's to participate in the public procurement processes through training and sensitization on public procurement. The PSFU for its part is prepared to consider involving eligible SMEs in its linkage programmes such as special purpose vehicles, proposed elsewhere.

Standardize Business Development Service Provision: The economy has over the years received several BDS providers who have contributed significantly towards the development of MSMEs, however their contribution does not seem to be addressing the key MSME challenges of access to credit, ease of tax payment among others. Several BDS providers are following different principles and there is no standards on BDS provision. <u>GoU needs to develop a standard for BDS providers and through the MTIC regulation of this service could be worked on. PSFU will develop a team of BDS service providers that will be working with several MSMEs to support them address their challenges.</u>

2.10 Regional Integration & Economic Partnerships:

Uganda's involvement in the regional integration should more and more be driven by the private sector issues other than political considerations. Business opportunities should be at the core of the integration processes and the policy and regulatory related issues become supportive measures for the partnerships. The Uganda private sector still faces some challenges for effective participation in and for the country to fully benefit from regional integration and international trade more generally:

Supply Side constraints: It will be difficult for the country to sustainably benefit from all the integration endeavours unless enterprises and sectors are competitive. There is need to implement all the measures presented in this paper to become more competitive. Implementation needs to be timely, coordinated and total.

3. Conclusion:

The issues above are part of the main challenges and concerns where the private sector would like to see action put. They are cross cutting in nature for the whole private sector. PSFU is finalising the full concerns and issues paper (PSFU Platform for Action) of the private sector which includes sector specific issues. The private sector believes these concerns if supported through allocation of adequate resources would contribute to improved competiveness of Ugandan businesses which in turn would create wealth and employment for Ugandan citizens. It will also result in generating growing revenues for Government which would be used for provision of services and social related support. By doing so, it will be contributing to the goal of achieving prosperity for all Ugandans.

Any further issues on this presentation, it may be referred to:
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