SUMMARY OF KEY PRIVATE SECTOR PROPOSALS FOR CONSIDERATIONS FOR FY 2023/2024 NATIONAL BUDGET

PRESENTED

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1.0 INTRODUCTION:

The Private Sector Foundation Uganda appreciates the continued strides by the Government to support the delivery of a Private Sector led economy. Several initiatives to reduce the cost of doing business are provided for under the Private Sector Development Programme of the National Development Plan III and second National Strategy for Private Sector Development FY 22/23- 27/28. In addition, during the development of the FY 22/23 national budget, Government agreed to over 74 percent of the Private Sector proposals. These interventions are welcome.

To support the achievement of the FY 23/24 budget strategy, theme: Full Monetization of Uganda's Economy through Commercial Agriculture, Industrialization, Expanding and Broadening Services, Digital Transformation and Market Access, the business community provides well researched cross cutting proposals which if implored with significantly contribute towards improvement in household incomes, creating employment for youth, generation of tax revenue and growth of the economy.

This paper has been developed through wider consultations of the business community across the 12[1] sectors including large enterprises, MsMEs and Young entrepreneurs at both urban and rural communities.

2.0 PRIVATE SECTOR POLICY PROPOSALS: CROSS CUTTING

The private sector is recognized as the engine of growth for the economy. However, for it to deliver to the desired levels the sector must be competitive to create wealth which translates into increased production and productivity, create employment both directly and indirectly throughout the value chains, contribute tax revenue which support the private sector further through service delivery and check forex hence ensuring a stable macroeconomic position for the country. The following cross cutting challenges continue to hinder the competitiveness of the private sector in Uganda and Internationally which undermines the ability to create more decent work opportunities especially for the women and youth.

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. They include;

2.1 Macro-Economic Stability:

The macroeconomic environment in Uganda has been stable for the last two and a half decades. This has enhanced the confidence of the business community because it has created more predictability for purposes of planning and investments. In the year 2022, the business community continue to have a negative view about the present business situation as the Business Tendency Index studies continues to be less favourable. Consequently, according to Bank of Uganda the outlook to economic growth is less favourable at 5% than previously projected to be 6%. External demand has weakened due to risen global commodity prices, and the resultant high domestic inflation which has resulted in to tighter monetary conditions, thereby constraining aggregate demand amongst the population. Consumer sentiments about present and expected economic situation also remains negative with more people being pessimistic that the economy will improve. Exchange rate continue to appreciate due to increased FDI and investments in oil however lending rates that had marginally reduced to 18% are projected to increase due to the increase in the central banking rate to 8.5%. There is therefore need to refocus policy towards unlocking demand for goods and services which stimulates production hence sustainably addressing food related inflation.

While Government has mostly focused on the monetary policy to stabilize the economy, the cost of monetary policy to the **economy is close to 9% of the GDP- this is equivalent to the investment in Karuma, Hydropower dam**. Consistently the economy is not sustainably impacted. The current risen commodity prices have even worsened the situation. <u>Government needs to concentrate more on required Fiscal Policy interventions in order to stimulate</u>

[1] Agriculture Agribusiness and Forestry, Tourism& Hospitality, Creative Arts, Manufacturing and Conversion industries, Trade and Commerce, Oil and Gas, Professional Services, Human resource (skills, education and health), construction, Logistics, ICT, and Financial services.

production of goods and services as a more permanent and sustainable solution to the country's economic challenges. Further, the private sector proposes the following measures to increase production, and exports; improve the balance of payments position; and as a result, stabilize the shilling.

Recommendations

a) Government should consider structuring demand to plan and program the markets and supply for the domestically produced goods in order 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 local market. For this to be actualize, there is need for good monetary policy, fiscal policy coherence to spur production.

b) Prioritise investment in the selected production sectors to increase food supply which will eventually contribute to the reduction of inflation, spur exports thus checking the foreign exchange volatility. This monetary policy, fiscal policy mix would be critical to this.

c) 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.

d) During policy implementation more attention, should be put to ensure that at least 80% of the resources reach and directly benefit the producers and service providers. This however must be done in such a way that enables sustainable results.

2.2 Stimulate Effective Demand:

The concertation of the GDP in Uganda is 65 percent in Kampala metropolitan area. Unfortunately, only 25% of the population resides in the urban areas leaving 35 million Ugandans in rural communities with very little contribution to the GDP. Government needs to help the rural people by working based on a value chain to make interventions which will help increase production especially in rural areas. This can be done together with major leaders in the value chain, supporting business linkages. Effective interventions need to be made in a well collaborated manner by the entire stakeholders who support various processes. The various supporting agencies and donor organisation including financial institutions need to work together to stimulate production targeting given markets – local and export. This will therefore require government to invest more in the leading sectors which can spur this growth. The intervention should emphasise product development processes, and promotion to enhance the market penetration. The target Government has of increasing rural income to about 20 million per homestead should be implemented to help create key purchasing power.

It is important for the economy to appreciate a policy which empower the local population, because it is a more sustainable market base. Like the Chinese suffered during the economic crisis where their exports reduced because of reduced demand in the western markets because of the global crisis they resolved to develop their over 650,000 million rural population to become a reliable market, Uganda should consider measures which will help the 36 Million Ugandans especially in the rural areas and periphery of urban areas to have increased incomes through conscious rural and periphery urban development. The strategy emphasized would realise increased incomes among the vast rural population and help stimulate the demand from industries and service providers. This will further create wealth, provide jobs directly and more jobs indirectly through operators in the value chain.

2.3 Skills and Attitude for Labour productivity:

While efforts are made to improve Uganda's training system to support the labour force in obtaining employable skills, many young people are not acquiring the cognitive, socio-emotional, technical as well as practical skills needed by the private sector to thrive and prosper in an increasingly competitive domestic, regional and global economy. There are numerous positions (jobs) available; especially in urban labour markets that cannot be filled appropriately because skilled labour is (1) either too expensive or (2) applicants do not bring the right skills and work ethics to perform up to the job requirements (PSFU Skills Needs Assessment report, 2019).

This illustrates the presence of skills gaps and the high costs of doing business which inhibits the ability of companies to attract and retain highly skilled labour force. Consequently the private sector companies rely on **(1)** 'Out-sourcing', whereby a company hires another company or an individual to perform tasks, handle operations or provide services that previously been done by the company's own employees and/or **(2)** 'Out-bonding' whereby employment is disguised to safe taxes and social security expenditures, while it utilizes 'staff' that work on their own-accounts (mostly informally) as part of the company. **(3)** 'Off-shoring' is another form to reduce costs, whereby the company moves entire company processes or services overseas. Business, Technical, Vocational Education and Training (BTVET) Policy recognizes this gap with the establishment of skills sector councils however, very little has been achieved.

To address this challenge, the private sector recommends;

a) Develop a labour market information system to align and link the developed labour return statistics and education management systems producing education anticipated statistics required to match labour demands and supply.

b) Prioritize the ECD through increased funding for the ECD policy in line with inspection of these canters. Also incentivize the private sector investing in this industry.

c) Revamp the operations of sector skills councils under MoES by moving them to be managed by the respective sector associations under the private sector.

2.4 Legal regulatory Regime:

An enabling environment is required to facilitate the investments of the private sector. The process of developing Government policies, laws and regulations takes too long to develop policies, laws and regulations. Some critical commercial bills such as **National Local content bill, completion bill, Animal Feeds, Real Estates Bill, Government Pensions (amendment bill), horticulture sector policy, apiculture sector policy** among others have stayed for long without being enacted and some of the enacted ones require regulations to operationalize them. The process for renewing trade licenses is too long with an average of 2 months taken by the private sector because the processes are manual. In addition, 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. **PSFU is working with Ministry of Trade Industry and Cooperatives to develop interventions geared towards addressing the bottlenecks which affects the ecosystem around start-ups in Uganda.**

PSFU appreciates the drive to ensure efficiency in service delivery through rationalization of Government agencies policy, however, for agencies which directly interface with the private sector such **as Uganda Coffee Development Authority, and Uganda Registration services Bureau should not be rationalize because they are already efficiently supporting the business community.**

Additionally, consultations and engagement of the private sector from the GoU have greatly improved during policy review and development however there is very minimal involvement 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) Involve the private sector in the policy implementation especially sector related policies for 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) Establish a robust land framework to enable access to land especially in mining. Furthermore, empower UIA to work with investors who may need to lease land so that the lease has an element of Government assurance rather than reliance on individuals' agreement.

d) Parliament should ensure accountability but should not handle civil servants and executive in such a way that instils fear rather than respect. This should especially be considered in the areas that affect the country's competitiveness. To support parliament, audits should be timely done by the auditor general so that they are current.

e) Fast track the enactment of critical commercial laws which include; as indicated in the attached annex

f) Implement the report on the Comprehensive Business Licensing Reform. Continue to work towards ensuring that licences issued are for purposes of business regulatory rather than revenue generation.

2.5 Tax 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 current Domestic Revenue Mobilization strategy (DRUMs) intends to increase our tax to GDP ratio from 14% to 16.8%. In attempts to widen the base, the same sectors as in the past have still been targeted to raise the lofty revenue requirements. Consequently, there regime has become like "birthday gifts" with changes happening annually, this affects planning for investments. Innovations that have been crafted to formalize the informal sector have not been supported instead have been stifled leading to more informality. These have mainly existed in the agro processing sector especially for the companies using local raw material higher than 75% without water.

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

The tax amendment bills should be able the get the optimal tax revenue while at the sometime promoting business formalization and growth. The tax regimes therefore should have the following characteristics;

I. Tax incentive should generally support a sector rather than individual companies; this will promote a healthy competition in the market.

II. Progressive Tax regimes are preferred because they don't constrain growth which contributes to more decent work opportunities for young people and also attracts more investments. Excise duty on value addition of agriculture products should be exempted for a period of 2-3 years to support the development of the products thereby leading to increase in house hold incomes. Government should consider charging higher import duties to imported products similar to the ones under excise.

III. Efficient tax administration should be preferred to imposing new tax regimes. Tax administrators should strive to carry out the administrative work directly or through outsourcing.

IV. 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.

V. Exempt the required taxes on innovative products that use 75% of the local raw material other than water for about 2-3 years to enable them breakeven. This stimulates more creativity while increases the disposable income of the producers and creates employment leading to more VAT revenues.

VI. Digital Tax stamps: Incur the installation related costs of the digital tax stamp to reduce the cost of doing business for the private sector. This will lead to increased production and sales volumes leading to more excise duty, VAT and corporation tax earnings

2.6 Infrastructure (Water for production, Energy, roads, ICT, Waterways, Rail, Air and Trade Facilitation):

2.6.1 Infrastructure for water for production:

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. Especially when the economy and the EAC region has been severely hit by the food insecurity due to climate change related issues. 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.

2.6.2 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.

2.6.3 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.

2.6.4 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 requires 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.

ICT: There is need to complete the roll out of the National Backbone Infrastructure (NBI) and last mile internet connections to support innovations and e- commerce.

2.6.5 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. **There is need to prioritize the last mile infrastructure (first class marram roads and power connections) for priority value chains in support of industrialization and export development**.

2.6.6 Trade facilitation infrastructure: is not established which increases the cost of doing business and undermines the export potential for the country. Export processes are still manual which breeds corruption, end to end logistics and trade infrastructure connecting markets is also not available and export promotion related activities conducted by Government do not demonstrate value for money as often they are dominated by public officials than the private sector.

a. Roll out the one stop facility for inspection, testing, fumigation and repackaging of exports at the 7 key border points including Busia, Malaba, Mpondwe and Elegu.
b. Increase funding to UNBS to develop standards for priority trading products, secure mutual recognition agreements of standards across major trading partners and operationalize enforcement along the 7 major export points.

2.6.7 Access to affordable Finance:

The high cost of borrowing is rendering Ugandan businesses very uncompetitive. While the financial sector is strong and sound going by the recent statistics published by the industry players and Bank of Uganda, its strength has not been translated into an ability to stimulate growth through effectively supporting the private sector with affordable credit as would be expected. While banks post quite good profits, several of their customers are finding it hard to survive, with several of them being sold off. Interest rates for the majority of borrowers have averaged about 20% for some time now. This is impacting businesses by way of weakened cash flow that is affecting their ability to meet obligations including to their lenders. While in a free market high inflation normally results high in interest rates and the Bank of Uganda through the Central Bank Rate has intervened to keep inflation low that has not manifested itself in correspondingly lowered interest rates.

This situation is even worse for start-up entrepreneurs and young people who cannot access credit from financial institutions. This raises questions such as “how realistically and innovatively can we solve this challenge”.

Uganda therefore needs to develop its own local long-term savings that can be used to address oligopolistic tendencies in the financial structure. Other specific proposals include;

a) Amend the current Government Pensions Law to promote long term savings in the economy. These savings should then be utilized to sustainably capitalize the Uganda Development Bank to finance the manufacturing, tourism and construction sector.
b) Create a risk guarantee schemes for about 7 prioritized sectors including agriculture, manufacturing, education and health, real estate, oil and gas, ICT and tourism. This will achieve a reduction in lending rates from an average of 18.3% to between 10% and 15% depending on the sector.
c) Develop the National competition policy and eventually a law to address the oligopolistic tendencies with in the financial sector.
d) Consider exempting Capital Gains Tax in the Income Tax Act (ITA) on the earnings from venture capitalists to attract start-up capital for youth-oriented businesses but also support the deepening of the capital markets in Uganda.
e) Finalize the regulations required for the implementation of the Islamic financing modalities to increase access to cheaper sources of funding.
f) PSFU to collaborate with the commercial banking institutions and URSB to (1) support them develop products for the livestock sector, transport and creative arts and (2) increase access to Securities Interest in Movable Property Act, 2019.
g) Promote business development services to improve the credit worthiness of the borrowers/ producer groups among others.

2.7 Implementation of Agreed Policies:

For some time now, Government has agreed to the some of the issues which the private sector prioritized for consideration during the budget. Implemented issues have ranged from 76% to 80% in the recent years, however, implementation to the level of which the action causes an impact to business has been low. The business community proposes that;

i. In the spirit of implementing the NDP III, put interventions on MDAs to embrace program-based budgeting through budget cuts for those that do not comply and for those that comply, increase their budgets to encourage synergy with in the Government agencies.
ii. Review the PPP law to improve the operations of the interventions made by UDC by commercializing them. The private sector proposes that the UDC should invite compete business community persons to manage the developed interventions. These include Soroti fruit Factory, Bukona Macroprocesses, Banana Initiative program among others. This will enable these interventions to get commercialized which ensures sustainability and efficiency.
iii. Government may continue delegating implementation of some of these activities to private sector. Secondly there is need to improve the monitoring process where the private sector which is expected to receive the services is involved in the monitoring process.

iv. Set up a private sector-controlled policy implementation monitoring framework with in the Office of the Prime Minister to ensure that the execution is monitored and it delivers the expected results.
v. Rewards and punishment need to be employed for use on performance of public servants.

2.8 Regional Integration (EAC, COMESA & AfCTA):

Uganda's private sector supports Government's aspirations for regional integration and is keen at ensuring that integration within the East African Community deepens and works meaningfully to deliver a competitive environment for businesses across the EAC and other trade blocs. African countries signed and launched the ACfTA in March 2018 in Kigali, Rwanda. The UN Economic Commission for Africa (UNECA) estimated the agreement's implementation could increase intra-African trade by 52 percent by 2022, compared with trade levels in 2010. A private sector position is yet to be developed but some of the issues raised in the cross-cutting issues section forge part of the issues that needs to be resolved to increase participation of the Private sector. Uganda needs to;

a. Ratify the trade agreement to actualize the existing opportunities
b. Develop the private sector strategy for implementation of the AfCTA.

However, benefiting from integration and free market access arrangements faces certain challenges including:

i. Supply Side Constraints:

Various limiting factors along value chains make it difficult to take full advantage of CMP presented by regional integration and bilateral preferences at Uganda's disposal simply stated in many areas, the country is not competitive enough. It is these challenges which are likely to undermine our performance with in the AfCTA. Some of the existing competitiveness indicators include high cost of electricity: while Uganda is at 9 USD cents/KWH, Egypt is at 5 USD cents/KWH, South Africa at 5USD/KWH, Kenya at 7 USD/KWH; high cost of financing: Uganda at 19-22%, Egypt at 10-14%, Morroco at 8-12%, un progressive legal regulatory challenges, poor policy implementation, unprogressively tax regime, among others. **These constraints need to be addressed to enable the private sector to effectively compete with the business community from other partner states across the EAC, COMESA and AfCTA.**

ii. Prevalence of Non-Tariff Barriers (NTBs):

Uganda Private sector continue to face several non-tariff Barriers. This increases transaction time and costs of doing business which contributes to low intra-regional trade volumes. Various studies have established NTBs as one of the key factors contributing to the decline in intra EAC trade currently standing at about 15%. The ssolution to these measures seems not to be sustainable as they NTBs keep re-occurring in different forms East African Community. In Uganda, more than 9 million people have made loses arising out of restrictions in milk, poultry, maize among others. **Government needs to engage the EAC secretariat to activate the EAC disputes settlement mechanism.**

iii. COMESA Free Trade Agreement

Uganda signed FTA agreement at the end of 2012 and formally entered the FTA in July 2014. Despite the opportunities offered by the FTA challenges remain. Certain products from some countries within COMESA arrive onto our markets cheaper than local counterparts, because, they are suspected of subsidies. This creates an imbalance in trade with in the bloc. **We recommend that Government should consider invoking the safeguard measures under the COMESA FTA in mitigation if subsidies can be proved. Similar actions could be taken in respect of goods from other countries as provided for under the WTO Agreements.**

iv. South Sudan instabilities.

The efforts Uganda Government put in ensuring that South Sudan is stabilized are appreciated. The situation is improving and business is picking up again. EAC Partner states should continue putting more available resources and continue political engagement through IGAD so that stability is restored in this neighbouring country.

In addition, to enhance the intraregional trade, the ratification of the customs union and the standards be fast tracked. Other EAC states citizenry will appreciate their investment in DRC infrastructure if they benefit from DRC's ratification of customs union.

v. Democratic Republic of Congo

During the year, political developments in DR Congo, Uganda's2nd biggest trade partner in COMESA, partly explained by the historic presidential elections caused uncertainty and panic amongst the citizenry of DRC hence increased number of immigrants to Uganda and continued trade restrictions/ trade blocs. Prevalence of Ebola in some parts of DRC also caused more restrictions along most border points. Consequently, trade between both countries declined by about 12% between 2018 to date which impacting on the commodity prices of local products especially agricultural to fall below acceptable levels. Without good commercial diplomacy being done between Uganda and DRC, the bilateral agreements so far celebrated are likely to end at celebration.

With the DRC now as a member of the EAC, we do expect to see more efforts of EAC partner states in improving the road infrastructure with in DRC, increased support for private sector players to access market opportunities in Kinshasa and Goma and harmonization of security and boarder clearance procedures. In addition, to enhance the intraregional trade, the ratification of the customs union and the standards be fast tracked. Other EAC states citizenry will appreciate their investment in DRC infrastructure if they benefit from DRC's ratification of customs union.

vi. Rwanda Uganda Border restrictions:

In February 2019, Republic of Rwanda closed its border with Uganda at Katuna blocking cargo trucks and buses, to upgrading the One Stop Border Post at Gatuna border. This has affected trade between two countries as traders not only lost their products but it also increased the cost of doing business. A potential loss of 20 M USD has been lost on a daily basis. The Border was later opened for mainly for goods going through Rwanda and not goods destined to Rwanda. Recent information reveals that the goods going to Rwanda have been allowed however, MsMEs are still unable to trade due existing security related issues and road blocks.

EAC Summit requested to recommend to Rwanda to officially communicate about the opening of trade between Uganda and Rwanda and also remove all the existing security to facilitate trade.

vii. Sanitary and Phyto sanitary standards

The Ugandan private sector raised concerns regarding Kenya's treatment of some of Uganda's goods. It was also noted that sometimes goods that have already been certified by Uganda National Bureau of Standards (UNBS) are denied access into Kenyan market by Kenya Bureau of Standards related issues. There is need for policy harmonization between the two partner states.

viii. Harmonize fisheries licensing procedures

During the meeting held on 26th February 2019 in Nairobi on bilateral trade related issues, Kenya was concerned about the continued harassment of their fishermen on Lake Victoria. It presented about eight cases of such alleged harassment

During the 12th joint border committee meeting 'it was agreed that both countries should harmonize their fishing regulations. It was reported that the harmonized guidelines are already in place under Lake Victoria fisheries organization.

It was also agreed that the two countries should harmonize their enforcement framework of fisheries management on Lake Victoria. It was noted that Uganda uses the military for enforcement of fisheries management on Lake Victoria while other countries uses different structures.

Recommendation

i. It was agreed that the Ministry of Agriculture Animal Industry and Fisheries is to propose an action plan for harmonization of regulations including but not limited to fishing zone, fishing gear, and enforcement mechanisms. The action plan to also include a meeting of ministers of fisheries within three months.

ii. Need to harmonies standards to ensure sustainable fishing in Lake Victoria.

iii. The fisheries and Agriculture Bill will soon be presented before cabinet. It will handle most of the harmonization concerns. The regulation developed thereafter will also facilitate the harmonization process.

ix. Certification of common crop seeds

Uganda and Kenya have continued to produce certified quality seeds for the farming community. Kenya's seed industry has been liberalized and experimenting on genetically modified organisms (GMO). During the 12th joint border commissioner's meeting, Uganda was urged to expedite the finalization of bio-safety legislation, and establishment of GMO lab. Both countries agreed to label any GMO material. The meeting was informed that the GMO Bill was considered in parliament, it was admitted to H.E the president for his assent and was returned to parliament for further consultations.

Free Movement of Services- Professional Services

a) To be competitive, the private sector in the EAC requires efficient banking, insurance, accountancy, telecoms and transport services to deliver quality services at competitive rates. To enhance competition and quality of services, the accountants, architects, engineers, and veterinary doctors negotiated and signed Mutual Recognition Agreements (MRAs); however, these are still not enforced. The professionals continue to incur high work permit costs and regulatory barriers limiting the free movement of services. **EAC Partner States should adopt and operationalize the enforcement mechanism of the signed MRAs**.

2.9 Local content and BUBU Policy:

Local Content: 60% of the national budget is developmental. Unfortunately, 70- 85% of these resources do not stay in the economy to stimulate growth. 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.
Presently 61% of road construction works under UNRA have been awarded to Ugandan firms. Local content participation in energy projects, oil sector and airport development project is still below 40% due to lack of capacity of local firms to supply. Majority of the MSMEs are do not have enough knowledge about the public procurement process.
Implementation of the local content policies and regulations is yet to reach a level where investments are prioritized. PSFU with support from the MasterCard Foundation are developing a special purpose vehicle to build capacity of the Local private sector to effectively participate in public procurement.

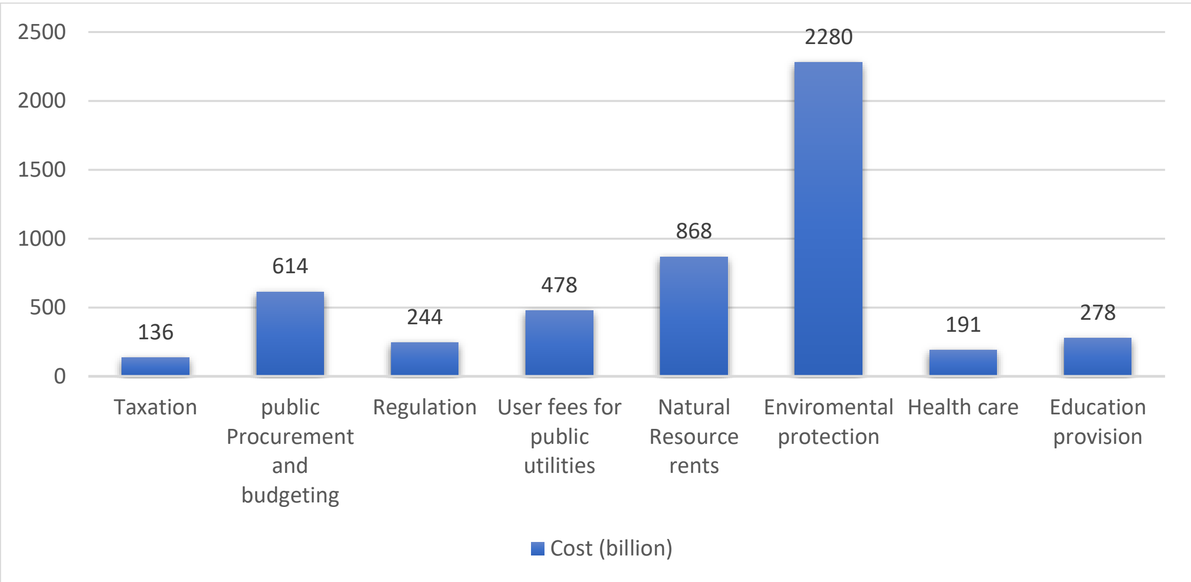
To address the above-mentioned constraints, the Private Sector Foundation Uganda recommends:

I. Prioritize capacity building for MSMEs and start up entrepreneurs in public procurement through bidding.
II. Enact the Local content bill 2020 to enforce the BUBU policy and reservation schemes.

2.10 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 due to corruption. Another study by IGG, 2019, revealed that although the estimates are considered to be lower than actual figures, the cost of corruption in Uganda is UGx 9.14 trillion per year, which translates to an average of 44% of the Government Budget in 2019. Environment protection corruption costs the country UGx 2.8 trillion per year, taxation related corruption costs UGx 136 billion per year, user fees for public utilities cost the country UGx 478 billion per year, Natural resources rents corruption costs 868 billion shs per year, absenteeism in health and education costs UGx2.3 trillion per year, bribery in health care costs UGx 191 billion per year, bribery in education costs UGx 278 billion per year, regulation at UGx 244 billion and procurement and budgeting corruption costing UGx614 billion per year as shown in the graph below.

Graph showing the cost of corruption to Ugandan economy.



Source: author using constructs from IGG study on corruption, 2019.

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:

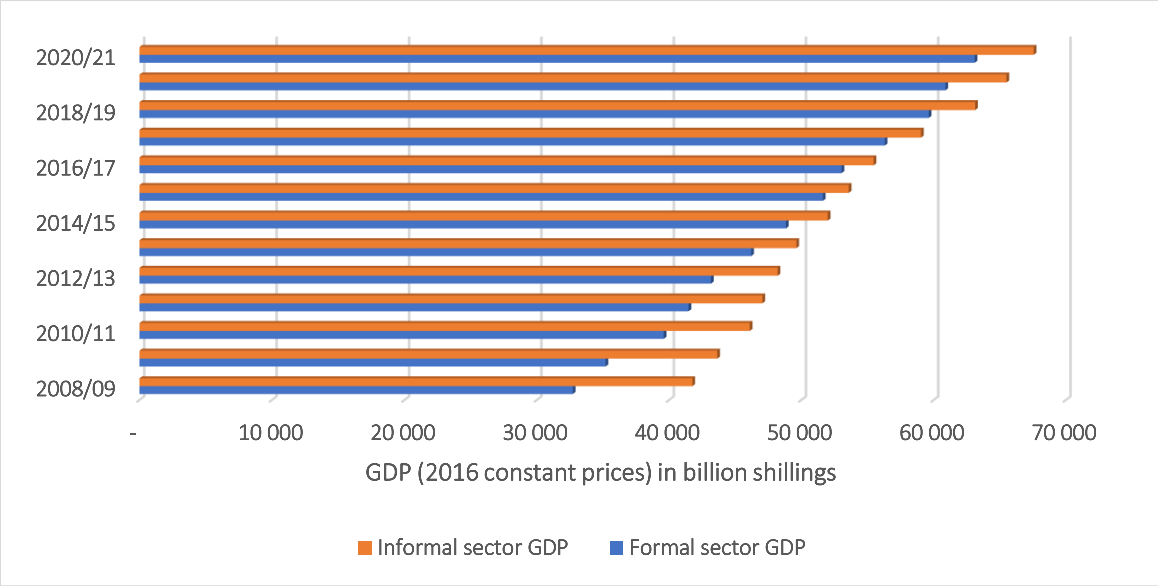
a) PSFU with support from the EU and ENABEL under the SG+ program will set up a private sector led Whistle Blower facility, to generate evidence on corruption cases. This information will support engagement with various MDAs.
b) GoU needs to link the various public databases to ensure that communicate with each other. Among such databases are the Companies Registry at URSB, the Land Registries, the NIRA, UCC and NITA.

2.11 Widening the Formal Sector:

One of the noticeable characteristics of Uganda's private sector is the high degree of informality (PSFU, 2020). At the macro level, when compared to the formal sector, the informal sector has been and continues to be more significant in terms of GDP contribution (**see Figure below**). A key implication of a large informal sector is the inability to generate decent employment and meaningfully contribute to national tax revenue, which hamstrings national service delivery. Yet, development of a private sector with ability to create jobs, contribute to income and tax revenue growth, is at the core of Uganda's NDP III. It is on this basis that evident among the key desired results in the NDPIII's private sector development agenda is the reduction of the informal sector from 51 percent in 2018/19 to 45 percent in 2024/25. Despite the merits that come with formality, informality continues to flourish and at the macro-level, inefficient service provision and excessive regulatory and tax burden is a key perpetuating factor[2].

Figure showing the Informal versus Formal sector GDP, 2008/09 – 2020/21

[2] The World Bank, Research and Policy Briefs, 2018, No.2.: Informality, why is it so widespread and how can it be reduced?

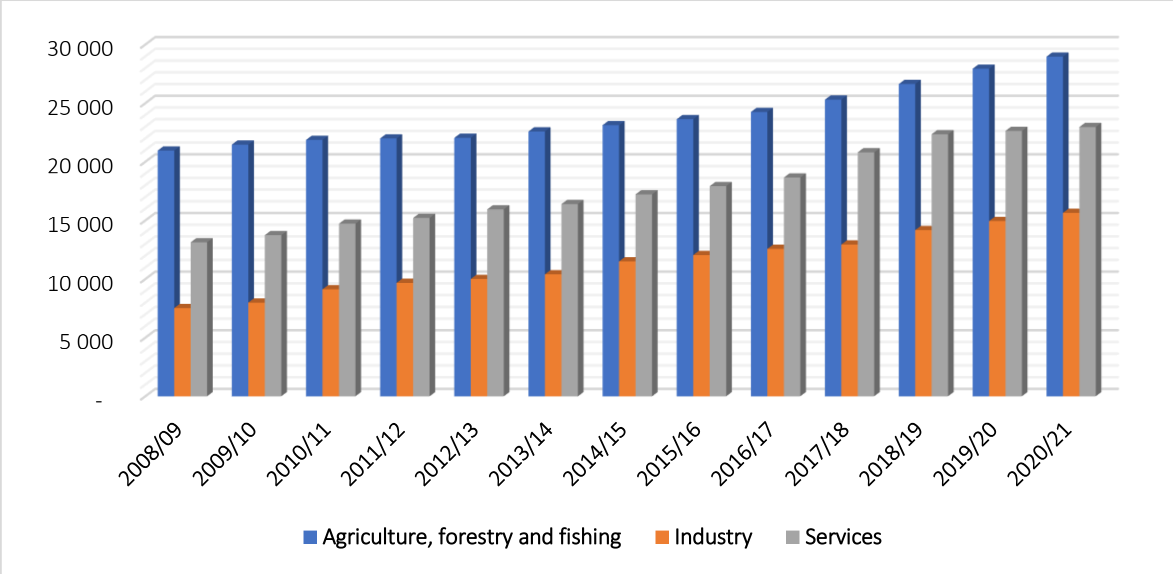


Source: PSDU Illustration based on BOU Data

According to the NSPSD II, report, at the meso level, informality is more prevalent in the agricultural sector (Figure 2.9) and less in the industrial sector. Informality in the service sector is also noteworthy. Key implications of informality at industrial and firm-levels include; (i) elimination of enterprises from economic resources like investment finance, which hinders not only business start-ups but also enterprise growth and competitiveness, (ii) firms do not fully benefit from appropriate technologies and efficient production methods, besides access to essential public services like judicial protection, risk mitigation like during crises[3], and (iii) in Uganda, failure by firms to compete for service and goods provision in the public sector despite the availability of local content policy frameworks like BUBU. Employment generated by informal private firms, albeit better than unemployment, is featured by poor wages and undesired working conditions, which totally contradicts the aims of NDPIII's agenda. Despite the demerits aforementioned, informality persists at the micro-level because by avoiding the burden of regulation and taxation, informal sector enterprises enjoy more flexibility in; personnel decisions, location, resource management, and market competition (World Bank,2018).

Figure showing the Informal GDP by sector, 2008/09 – 2020/21

[3] During the recent bailouts by government for those affected by the pandemic, it was difficult for informal enterprises to access funding or any other assistance.



Source: PSDU Illustration based on BOU Data

Majority of these firms 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[4] 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

[4] 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.

members on their part would promote the linkages between those MSMEs with larger enterprises in (and depending on) the specific value chain.

2.12 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. The inspection function of UNBs should be privatized while UNBS concentrates on the regulation part. This is more sustainable and efficient.

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 are no standards on BDS provision.

a) Increase budget for UIRI to stimulate more innovations especially in value addition. this could be put at establishing new outlets in the industrial parks to be accessed by the wider MSMEs.
b) PSFU is implementing the lead firm model that strengthens the business linkages to support BDS, mentorship, training and market guarantee to various MSMEs
c) PSFU is working with UNBS to develop standards for BDS service provision and also develop a team of BDS service providers that will be working with several MSMEs to support them address their challenges.

3.0 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 finalizing the full concerns and issues paper (PSFU Platform for Action 2022) of the Private

Sector which includes sector specific issues. The private sector believes these concerns if supported through allocation of resources would contribute to the competiveness of Ugandan Businesses which in turn would create wealth and employ Ugandan citizen thereby creating income for those employed directly and those engaged in the various product and service supply chains. It will also provide improved revenues for Government which would be used for provision of services and social related support. By so doing so, it will be contributing to the goal of achieving prosperity for all Ugandans. It is therefore important for Government to consider and allocate resources to the issues raised in this paper.

Clarifications:

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

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