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**CRITICAL AREAS THAT NEED FUNDING IN FY 2024/25 TO BOOST  
PRODUCTION AND PRIVATE SECTOR ACCESS TO MARKET AND  
COMPETITIVENESS**

**PRESENTED TO**

**THE PRESIDENTIAL ADVISORY COMMITTEE ON BUDGET (PACOB)**



**PREPARED**

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## About PSFU

Private Sector Foundation Uganda (PSFU) is Uganda's umbrella body of the private sector made up of over 320 Business Associations, Corporate bodies and the major Public Sector Agencies that support private sector growth. Since its founding in 1995, PSFU has served as a focal point for private sector advocacy as well as capacity building and continues to sustain a positive dialogue with the government on behalf of the private sector. PSFU is also the government's implementation partner for several projects and programs aimed at strengthening the private sector as an engine of economic growth in Uganda. PSFU is a value-based and ethically driven entity premised on 12 sectors that drive Uganda's economic growth. These sectors include Agriculture, Agribusiness and Forestry; Construction and Real Estate; Financial Services; Professional Services; Tourism; Manufacturing; Human Resources (Skills, Health, and Education); Transport and Logistics; Trade and Commerce; ICT; Culture and Creative; and Energy, Mining, Oil and Gas.

## Introduction

Uganda's Vision 2040 aims to achieve a Transformed Ugandan Society from a Peasant to a Modern and Prosperous Country within 30 years. The Private Sector can play a critical role in the realization of this vision because it generates 77% of formal jobs, contributes 80% of GDP, funds 60% of all investments, and provides more than 80% of government domestic revenues<sup>1</sup>. We commend the Government for its target to grow the economy from the current US\$ 49.4 billion (Shs.184.3 trillion)<sup>2</sup> to \$500 billion by 2038<sup>3</sup> so as for the country to have an integrated, independent, and self-sustaining economy. For the Private Sector to deliver on these aspirations, it must be competitive across the entire supply chain and in all sectors. This will require addressing the policy and ecosystem challenges impeding its competitiveness. This paper analyses the key challenges facing the Private Sector in Uganda and proposes several measures to address them.

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<sup>1</sup> NPA. (2020). National Development Plan III.; [http://www.npa.go.ug/wp-content/uploads/2020/08/NDPIII-Finale\\_Compessed.pdf](http://www.npa.go.ug/wp-content/uploads/2020/08/NDPIII-Finale_Compessed.pdf)

<sup>2</sup> MoPED. (2023). Budget Speech FY2023/24; <https://www.finance.go.ug/sites/default/files/2023-06/Min%20of%20Finance%20Budget%20Speech%20FY2023-24.pdf>

<sup>3</sup> Daily Monitor. (2023). Budget plans for next year unveiled; <https://www.monitor.co.ug/uganda/news/national/budget-plans-for-next-year-unveiled-4369772>

In assessing the Government's performance, it is important to first reiterate key issues that the National Resistance Movement (NRM) commits to tackle under its manifesto. By 2025, the NRM commits to, among other issues (a) *reducing the 68.9% of households still stuck in subsistence agriculture*, (b) *boosting agricultural productivity to sustain domestic and export markets*, (c) *reducing post-harvest losses*, (d) *tackling the high unemployment and underemployment of the young people*, (e) *reducing the high cost of credit, electricity and transport which lowers the competitiveness of Ugandan products*, (f) *addressing the low levels of industrialization*, (g) *improving the quality of healthcare and education services*; and (h) *investing in scientific research and development (R&D) that is necessary for informing innovation and policy*<sup>4</sup> among others. These issues are well aligned with the third National Development Plan (NDP III) and are key to achieving the set targets therein the Sustainable Development Goals.

We also wish to commend the government on its efforts towards the realization of the set commitments. This can be partially deduced from the sectoral performance in the FY 2022/23. In FY 2022/23, all three sectors of the economy registered growth. The services sector grew by 6.2% and contributed 42.6% to GDP; the industry sector grew by 3.9% contributing 26.1% to GDP; the agriculture, forestry, and fishing sector grew by 5.0% contributing 24%<sup>5</sup>. In FY 2022/23, the economy grew at an average of 5.5% as compared to 4.6% in the previous year due to good Fiscal and Monetary policies by the government<sup>6</sup>. Uganda's average growth rate is 1.4% higher than the Sub-Saharan Africa average growth rate of 3.6% for the calendar year 2023<sup>7</sup> despite the global economic turbulences, caused in part by the Russia- Ukraine war, dry spell due to climate change which affected food crops, livestock, and fishing sub-sectors.

### **Proposed Issues for Prioritization in the FY 2024/25 Budget**

There are several issues in the priority areas which are affecting the private sector's growth and competitiveness. These issues require prioritization in the FY 2024/25 Budget so as to

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<sup>4</sup> NRM. (2020). Manifesto 2021-2026;

<https://www.mediacentre.go.ug/sites/default/files/media/NRM%20Manifesto%202021-2026.pdf>

<sup>5</sup> MoFPED. (2023). Background to the Budget FY 2023/24; <https://www.finance.go.ug/sites/default/files/2023-06/BTTB%20FY%202023%20Print.pdf>

<sup>6</sup> MoFPED. (2023). First Budget Call Circular FY 2024/25; <https://www.finance.go.ug/publication/1st-budget-call-circular-fy-202425>

<sup>7</sup> IMF. (2023). Regional Economic Outlook: Sub-Saharan Africa; <https://www.imf.org/en/Publications/REO/SSA/Issues/2023/10/16/regional-economic-outlook-for-sub-saharan-africa-october-2023>

consolidate the achievements registered under the NRM Manifesto, NDP III and SDGs implementation.

## 1. Increasing Agriculture Production and Productivity

While there have been efforts to increase production and productivity in the agriculture sector, several issues require urgent attention.

- (i) **Reduction in high import bill of agricultural seeds:** We commend the Government that in FY 2022/23, it released new varieties of rice and potatoes; and developed four (4) anti-tick vaccines among others<sup>8</sup>. However, high import bill of agricultural seeds has affected easy access which has subsequently affected agricultural output to meet the required tonnage by available markets. As of October 2023, Uganda's Agricultural seed import shipments in Uganda stood at **68%**, imported by **22** Uganda Importers from **24** Suppliers<sup>9</sup>. For example, in 2022 Uganda imported **870** shipments of Cabbage, **522** shipments of watermelon seeds, and **191** shipments of tomato seeds from India<sup>10</sup>. The same goes for Maize (1,060 metric tons), Sorghum (13 metric tons) and assorted Vegetable seeds (44 metric tons)<sup>11</sup>. In the beef and dairy sector, Uganda's dependence on cow (bovine) semen to increase beef and dairy production cannot be overstated, having **US\$ 1,755 billion** in FY 2022/23 to procure semen, eggs, ova, embryos, and their associated equipment<sup>12</sup>. 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 required seeds for the local

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<sup>8</sup> MoFPED. (2023). Semi-Annual Budget Performance Report FY 2022/23; <https://budget.finance.go.ug/sites/default/files/National%20Budget%20docs/Semi%20Annual%20Budget%20Performance%20Report%20FY%202022-23.pdf>

<sup>9</sup> Volza Grow Global. (2023). Uganda Agricultural seed imports; <https://www.volza.com/p/agricultural-seed/import/import-in-uganda/>

<sup>10</sup> Ibid.

<sup>11</sup> MAAIF, National Seed Certification Services (NSCS) exports records at Namalere, August 2020

<sup>12</sup> OAU. (2023). Report of The Auditor General on the Financial Statements of National Animal Genetic Resources Centre and Data Bank (NAGRC&DB) for the Year Ended 30th June 2022; [https://www.oag.go.ug/storage/reports/AGR\\_CG\\_AGCY\\_2021\\_22\\_1676631375.pdf](https://www.oag.go.ug/storage/reports/AGR_CG_AGCY_2021_22_1676631375.pdf)

market<sup>13</sup>. The inability of the certified companies to supply the required seed quantities is responsible for an estimated **40%** of counterfeit seeds on the local market<sup>14</sup>.

**Recommendation:** The FY 2024/25 Budget should increase funding to the National Agricultural Research Organization (NARO) to increase domestic production of high-value agricultural seeds. This will ultimately reduce Uganda's dependency and high import bill on the same.

(ii) **Lack of non-wage operation grants at the Local Government to support the provision of agricultural extension services:** In the FY 2023/24 Budget, we note that the wage component increased two-fold from UShs. 77 billion in 2020/21 to Ushs. 142 billion in FY 2023/24<sup>15</sup> to cater of salaries for the increased number of frontline extension officers at LG that were recruited since FY 2015/16. However, there is no allocation for agricultural extension operations<sup>16</sup>, which is contrary to the FY 2023/24 AGI programme priorities which aim at strengthening 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.

**Recommendation:** The government should allocate resources for non-wage operation grants at LG for supporting agricultural extension services in the FY 2024/25 budget. This is key to achieving the AGI programme priorities for the FY 2024/25 and the effective implementation of the Parish Development Model (PDM).

(iii) **Water for Production:** We note that 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<sup>17</sup>. Only 1% of potential irrigable area (15,000ha) out of 3,030,000ha is under formal irrigation in Uganda.<sup>18</sup> However, large-scale irrigation

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<sup>13</sup> New Vision. (2019). Uganda Lacks Enough Planting Seeds; <https://www.newvision.co.ug/news/1496553/uganda-lacks-planting-seeds>

<sup>14</sup> Ibid

<sup>15</sup> Ibid

<sup>16</sup> Ibid

<sup>17</sup> OAG. (2022). Annual Report of The Auditor General to Parliament for The Financial Year Ended 30<sup>th</sup> June 2022; <https://www.oag.go.ug/viewmegareport/20>

<sup>18</sup> MoFPED. (2018). BMAU Briefing Paper; <https://www.finance.go.ug/sites/default/files/archive-files/Publications/BMAU%20Briefing%20Paper%20%206-18%20->

currently dominates functional irrigation schemes in Uganda or those under rehabilitation, accounting for **76%** of the total area under irrigation (about 8,500 ha of the total 11,200 ha).<sup>19</sup>. More so, irrigation is an expensive venture. For instance, Olweny Lira 600 Hectare costed UGX. 47.625 billion targeting rice production. This could extend water to more than 10,000 hectares and benefit thousands of farmers. Moreover, smallholder farmers who make up **80%** of Uganda's agricultural production<sup>20</sup> are left out of the current irrigation model, leaving them to depend on rain-fed agriculture. Moreover, most of the installed tanks were under capacity tanks below the recommended 10,000-litre water tanks which has resulted in the underutilization of the irrigation equipment<sup>21</sup>.

**Recommendation:** In the FY 2024/25, 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. This will significantly reduce the expenditure on irrigation schemes at the same time increasing consistent food production and security in the country. Furthermore, Local Governments should be supported to carry out monitoring and supervision of the installation of the irrigation equipment supplied to farmers.

## 2. Low utilization of domestic, regional, and global markets

We commend the government for having successfully negotiated trade agreements at EAC, Continental and Global levels. However, Uganda's utilization of these markets as evidenced by the high trade deficit of **US\$ 402.05 million** as of August 2023<sup>22</sup> needs to be addressed. Indeed, Uganda's total unrealized export potential for the exporter Uganda is at **\$3.1 bn**<sup>23</sup>. For example, while Uganda's export potential for coffee is **\$ 850 million**, her actual exports

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[%20Modernization%20of%20Agriculture%20in%20Uganda.%20How%20much%20has%20government%20done%20through%20irrigation.pdf](#)

<sup>19</sup> Ibid

<sup>20</sup> IFAD. (2020). Uganda Impact Assessment of the Small and Medium Agribusiness Development Fund (SMADF); [https://www.ifad.org/documents/38714170/41904822/uganda\\_cecofa\\_report.pdf/bcdc87e4-32a8-c5aa-4756-e7b83f57c1d2?t=1588840394000](https://www.ifad.org/documents/38714170/41904822/uganda_cecofa_report.pdf/bcdc87e4-32a8-c5aa-4756-e7b83f57c1d2?t=1588840394000)

<sup>21</sup> OAG. (2022). Annual Report of The Auditor General to Parliament for The Financial Year Ended 30<sup>th</sup> June 2022; <https://www.oag.go.ug/viewmegareport/20>

<sup>22</sup> MoFPED. (2023). Performance of the Economy Monthly Report-September 2023; <https://www.finance.go.ug/sites/default/files/reports/POE-2023-09-SEP.pdf>

<sup>23</sup> ITC. (2023). Export Potential Map-Uganda; <https://exportpotential.intracen.org/en/?type=country&code=800>

currently stand at **\$657 million** with an unrealized potential of **\$255 million**<sup>24</sup>. This is similar to other products like milk, tea, sugar, sesame, cocoa and steel among others.

The untapped potential of Uganda's products is due to a number of factors including (a) the prevalence of post-harvest losses which reduce Uganda's exports of sorghum, maize and peanuts by **45%**<sup>25</sup>; (b) insufficient trade facilitation infrastructure like cold chains (*the few available are expensive-charge a cost of \$10 daily per cubic meter*) and one-stop cargo consolidation centre/hub (*the existing ones are concentrated in urban centres yet 90% of producers are MSMEs largely in rural areas*) to ensure standards across the chain and reduce on the cost of production while meeting the required quantity and quality respectively; (c) low levels of aggregation of farmers to support manufacturers easily access raw materials while ensuring traceability; and (d) less focus on improving competitiveness and local procurement in the domestic market among others.

### **Recommendations.**

In the FY 2024/25, PSFU proposes that the Government should:

- (i) Leverage the domestic market to increase trade and revenue. In FY2019/20, domestic trade contributed about **29%** to Uganda's overall domestic revenue basket (**US\$17.2 trillion**) and employed an estimated **3.6 million people**<sup>26</sup>. In the same year, domestic trade contributed about **9.6%** to the services GDP<sup>27</sup>. Therefore, the government should also look inward at strategies to grow the domestic trade sector and improve its operating environment to stimulate job creation and thus increase domestic revenues.
- (ii) Invest in cold chains and warehousing facilities (ones-stop cargo consolidation hubs) for export across the country and most especially on key border posts as a critical trade facilitation infrastructure for maintaining the freshness and quality of essential products like fruits, vegetables and oils (shea butter/oil) among others. these should be located near major production areas.

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<sup>24</sup> ITC. (2023).Export Potential for Uganda; <https://exportpotential.intracen.org/en/products/tree-map?fromMarker=i&exporter=800&toMarker=w&market=w&whatMarker=k>

<sup>25</sup> Resilient Food Systems. (2022). Reducing food waste in Uganda by tackling post-harvest loss; <https://resilientfoodsystems.co/news/reducing-food-waste-in-uganda-by-tackling-post-harvest-loss>

<sup>26</sup> EPRC. (2023). The unexploited potential for Domestic Trade in Uganda; <https://eprcug.org/publication/the-unexploited-potential-for-domestic-trade-in-uganda/>

<sup>27</sup> Ibid

- (iii) Prioritize aggregation of farmers and other supply chain actors in key export products to ensure traceability and easy access by the private sector to raw materials for value addition and export.
- (iv) Strengthen the portfolio of Commercial Attaches to promote commercial diplomacy for market intelligence, investment promotion, marketing and branding of Uganda within the international and regional system.

### **3. Need to improve on Transport and logistics infrastructure for reduced cost of production.**

The World Bank notes that Uganda's transport and logistics industry is small, weak, informal, fragmented, inefficient, and costs the country **US\$ 3 trillion** annually<sup>28</sup>. According to the Logistics Performance Index (LPI), Uganda ranks **102<sup>nd</sup>** out of **139** countries, worse than Rwanda and Kenya, ranking **57<sup>th</sup>** and **68<sup>th</sup>** respectively<sup>29</sup>. **Uganda is therefore 50 places below Kenya and 34 places below Rwanda.** Uganda's weak transport and logistics industry has led to an increase in the cost of production and trade, lowering the optimal capacity utilization of manufacturing firms, and reducing market access and, consequently, economic growth. At the company level, transport, and automobile expenses alone account for **17.4%** of the manufacturing firm's cost<sup>30</sup>. 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 **60%-70%**<sup>31</sup>.

Furthermore, the adoption of modern technologies and digital solutions in Uganda's logistics and Supply Chain is relatively low which limits Uganda's standard of Export logistics to global competitiveness. With regards to the central corridor infrastructure, the 96 km Masaka-

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<sup>28</sup> World Bank. (2016). UGANDA: Skills to Support the Transport and Logistics Sector; <https://documents1.worldbank.org/curated/en/253121510894144054/pdf/121435-16-11-2017-16-6-4-TransportLogisticsapprovalcopy.pdf>

<sup>29</sup> World Bank. (2023). Logistics Performance Index (LPI); <https://lpi.worldbank.org/international/global>

<sup>30</sup> PSFU. (2023). Cost Drivers of Manufacturing Firms in Uganda.

<sup>31</sup> SGR Uganda. (2018). Project Justification; <https://www.sgr.go.ug/project-justification>



Kyotera-Mutukula road which facilitates above **310** cargo trucks every day<sup>32</sup> is in a deplorable state, hindering the smooth movement of commercial trucks and other vehicles and thus requires urgent upgrading. Due to its poor state, trucks take more than **6** hours instead of **3** to ply this route and has raised the cost of freight on the route by over **40%**, consequently hurting transporters and businessmen<sup>33</sup>.

## Recommendations

In the FY 2024/25, PSFU proposes that the Government should:

- (i) Leverage Public-Private Partnerships to invest in trade-facilitating logistics like One Stop Logistics Center, National Integrated Logistics Platform Project, Hub and Spoke Logistics Supply Chain Model project.
- (ii) Expedite plans to establish the Standard Gauge Railway as this would reduce the cost of freight transportation from Mombasa to Kampala from USD 0.16 per tonne-km to about USD 0.03 per tonne-km. This should be extended to the Mutukula border post.
- (iii) Free resources to promote Water as a viable and safer alternative means of transport for cargo by increasing cargo ships through government investments and PPPs. This will require tabling and expediting the passing of the draft Water Transport Bill, 2020 to cater for modalities of promoting water transport.
- (iv) Support Uganda Air Cargo Corporation (UACC) with cargo planes to provide quick delivery of goods in regional and global markets. The appropriated **US\$266 million**<sup>34</sup> as a resuscitation plan for UACC's purchase of cargo planes should be released to facilitate this plan.

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<sup>32</sup> Trademark Africa. (2021). Mutukula One-Stop border post to ease trade between Tanzania, Uganda; [https://www.trademarkafrica.com/onestopborderposts/news\\_article/mutukula-one-stop-border-post-to-ease-trade-between-tanzania-uganda/](https://www.trademarkafrica.com/onestopborderposts/news_article/mutukula-one-stop-border-post-to-ease-trade-between-tanzania-uganda/)

<sup>33</sup> UBC. (2023). Deplorable State of Mutukula-Masaka Road Affects Business on the Central Corridor; <https://www.youtube.com/watch?v=drMvKXr4SuM#:~:text=The%20deplorable%20state%20of%20Mutukula.consequently%20hurting%20transporters%20and%20businessmen.>

<sup>34</sup> Air Insight. (2022). Uganda Air cargo targets A330F, 777F under 5-year plan; <https://airinsight.com/uganda-air-cargo-targets-a330f-777f-under-5-year-plan/>

- (v) Fast-track plans to renovate the Masaka- Kyotera-Mutukula road in order to reduce the cost of freight. Moreover, this road is strategic if Uganda is to increase trade with Southern African countries.

#### **4. Improve tourism roads to promote the sector.**

The private sector commends the Government of Uganda for putting in place interventions to promote Uganda as a preferred tourist destination. This has seen the sector create 620,000 jobs or 3.5% of total employment in 2022 and generate a total of US\$ 7.9 trillion, equivalent to 7% of Uganda's GDP. 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 **70%** of tourist revenue comes from the sale of gorilla permits<sup>35</sup>, the 31km Kanyantorogo – Buhoma road, 10 km Buhoma – Nkuringo road and 50 km Butogota – Ruhija road are impassible when it rains. As a result, tourists prefer Gorilla tracking in Rwanda where a permit cost US\$1400 as opposed to Uganda where it costs US\$ 750. Moreover, these roads would ease access to tourist attractions in the Bwindi Forest and Mgahinga Park tourism value chain is in urgent need of upgrade. Furthermore, whereas Rwanda and Kenya have announced visa-free entry for all Africans<sup>36</sup> to boost tourism and trade, Uganda has yet to follow suit. Free movement of persons in Uganda by waiving visa fees by the government could also lead to labour mobility, intra-Africa knowledge and skills transfer, improving trans-border infrastructure and shared development.

#### **Recommendations**

To boost the performance of the sector, the FY 2024/25 Budget should:

- (i) 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.

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<sup>35</sup> Parliament of Uganda. (2020). ALTERNATIVE POLICY STATEMENT FOR THE MINISTRY OF TOURISM, WILDLIFE AND ANTIQUITIES FOR THE FY 2020/2021; <https://www.parliament.go.ug/cmris/browser?id=09e4c7a2-ab5a-4a9c-a4d9-50aca2a7921a%3B1.0>

<sup>36</sup> Other countries that have waived visas to African nationals are Gambia, Benin and Seychelles.

- (ii) Emulate Kenya and Rwanda in promoting the free movement of persons by granting visa-free entry for all Africans.

## 5. Reduce on cost of electricity and ensure sufficient national fuel reserves.

We commend the Government for the strides in developing the energy sector through electricity generation and investing in local content in the oil and gas sector. However, access to electricity is still a challenge with only 20% of the households nationally having access to the electricity grid (55% for urban and 8% for rural)<sup>37</sup>. Furthermore, while the Government has tried to significantly lower the power tariffs, the cost of energy is still high as energy costs contribute about 15% of production costs; and in some SMEs, this can be as high as 35%<sup>38</sup>. Furthermore, the electricity tariff in Uganda is on average 9 USD cents KWH for low-end users and 5 USD KWH for high-end users compared to Kenya which has improved to 7 USD cents KWH for both high- and low-end users<sup>39</sup>.

We also note the vulnerability of Uganda in regard to fuel reserves as the current fuel reserve infrastructure can only accommodate **30,000,000 litres** of fuel at all times, which is equivalent to **4.5** days of the country's stock, given that Uganda consumes **7,000,000 litres** daily<sup>40</sup>. Uganda National Oil Company (UNOC) faces resource constraints to put in place an additional recommended **60 million litres** of fuel reserve infrastructure.

### Recommendations

The high cost of electricity and lack of sufficient fuel reserves limit the private sector's competitiveness as they have led to a high cost of doing business. Therefore, in the FY 2024/25, the Government should:

- (i) Fast-track the construction of the planned Kampala storage terminal which is to store about 60 million litres of fuel as this would complement the existing oil reserve in Jinja which can only store 30 million litres.

<sup>37</sup> MoICT. (2023). Digital Transformation Roadmap 2023/2024 - 2027/2028; <https://ict.go.ug/wp-content/uploads/2023/09/Digital-Transformation-Roadmap-2023-1.pdf>

<sup>38</sup> PSFU. (2023). Private Sector Platform for Action; <https://www.psfuganda.org/policy-papers/291-psfu-platform-for-action-2022-2023/file.html>

<sup>39</sup> Ibid

<sup>40</sup> Parliament of Uganda. (2022). Report of The Sectoral Committee on Tourism, Trade and Industry on the Fuel Crisis in the Country; <https://parliamentwatch.ug/wp-content/uploads/2022/02/TTI2-22-Report-on-the-Fuel-Crisis-in-the-Country.pdf>

- (ii) Expedite the implementation of the Electricity Access Scale-up Project to achieve the target of delivering about **1.3 million**<sup>41</sup> 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.

## **6. Roll out the National Graduate/ Youth Service Scheme and support Sports sector.**

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 arts and creative sector. In terms of skills development, the Government is yet to put in place a National Graduate/ Youth Service Scheme. Establishing a national youth service scheme in Uganda is crucial for fostering civic engagement, skill development, and national unity.

### **Recommendations**

PSFU proposes that the FY 2024/25 Budget should prioritize.

- (i) Attracting both domestic and FDI targeting Investment in the sports sector to establish sports activity. Moreover, this is timely given the fact that the country is co-hosting the African Cup of Nations in 2027.
- (ii) Enacting the National Graduate Scheme bill into law and rolling it out to introduce a mandatory National Service Scheme.

## **7. Tackle the high unemployment and underemployment of the young people through investing in a common user hub/facility to promote talent in the creatives sector.**

In FY 2018/2019, Uganda is estimated to have earned \$1.6bn from the arts, culture, creativity, and tourism sectors alone<sup>42</sup>. Uganda's creative industry is valued at 140 billion<sup>43</sup>. While the sector has the potential to promote innovation and creativity, it is faced with a number of challenges which need to be addressed. However, the sector lacks a

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<sup>41</sup> Ministry of Energy and Mineral Development. (2022). Renewed Hope for Free Electricity Connections; <https://energyandminerals.go.ug/wp-content/uploads/2020/07/Access-Newsletter-Issue-1-Vol-3-Final-1.pdf>

<sup>42</sup> EPRC. (2023). In praise of creatives as a 'magic bullet' to combat youth unemployment; <https://eprcug.org/eprc-in-the-news/in-praise-of-creatives-as-a-magic-bullet-to-combat-youth-unemployment/>

<sup>43</sup> URA. (2023). URA Engages the Creatives Industry Promoters; <https://thetaxman.ura.go.ug/?p=4160>

common user hub/facility where emerging artists, designers, musicians, and other creatives can access resources, collaborate, and showcase their work at subsidized rates.

**Recommendation:** In the FY 2024/25, the government should treat the need to have a common user hub/facility as a critical infrastructure to promote the sector. A common user facility for the creative sector could promote young talent by offering affordable access to tools, technology, and mentorship, levelling the playing field for those who may not have the means to invest in expensive equipment or education.

## 8. Improve ICT Infrastructure.

The ICT sector continues to grow at an annual average growth rate of **14.8%**, contributes **9%** to Uganda's GDP, and employs **2.3 million** people<sup>44</sup>. However, the country still lags behind with regard to the primary infrastructure necessary to spur digital transformation. Currently, Uganda's internet penetration rate is at an average of **43%** while **94%** of households have no internet access<sup>45</sup>. Furthermore, access to fibre nodes (where users can be connected) is limited with only **29%** of the population living within **10km** of such nodes<sup>46</sup>. With the rise of the digital economy, regional E-Commerce is projected to hit **37.1%** in 2024, and Uganda's E-Commerce revenue is projected at **\$421 million** by 2025<sup>47</sup>, the need to increase and upgrade Uganda's digital infrastructure is urgent.

### Recommendations.

In the FY 2024/25, the government should:

- (i) 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

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<sup>44</sup> MoICT. (2023). Digital Transformation Roadmap 2023/2024 - 2027/2028; <https://ict.go.ug/wp-content/uploads/2023/09/Digital-Transformation-Roadmap-2023-1.pdf>

<sup>45</sup> MoICT. (2023).

<sup>46</sup> Ibid

<sup>47</sup> MoICT. (2021). Uganda National E-Commerce Strategy; <https://ict.go.ug/wp-content/uploads/2021/07/E-Commerce-Strategy-Formulation.pdf>

Backbone Infrastructure. According to the International Telecommunications Union (ITU), a **10%** increase in broadband penetration yields **1.4%** in GDP growth<sup>48</sup>.

- (ii) Support the development of local ICT products (innovations) by supporting regional ICT incubation hubs and training communities and SMEs on digital literacy.

#### **Other critical issues for consideration.**

- (i) **Address delays in paying Domestic Arrears:** Domestic arrears have increased to US\$ **2.5 trillion**<sup>49</sup> which is verified despite the existence of the Strategy to Clear and Prevent Domestic Arrears in June 2021, and according to the Public Finance Management Act (PFMA) 2015, Section 21 (2). We note that in the FY2023/24, the government has allocated only **US\$ 205 billion** for domestic arrears<sup>50</sup>. In the coffee sub-sector, the government is yet to clear over **US\$ 44 billion**<sup>51</sup> coffee seedling arrears owed to suppliers of these seedlings. Under the construction sector, as of September 2022, UNRA owed contractors **US\$ 832 billion** in arrears arising from delayed payments for road works<sup>52</sup>. This delayed payment of domestic arrears has heavily contributed to the poor participation of Ugandan companies in government procurement and other contracts especially with our development partners and international organizations. Furthermore, the existing domestic arrears are affecting private-sector access to financing due to higher default rates, forcing them to opt for money lenders. This has heavily affected liquidity and private sector growth and competitiveness. Also, the outstanding arrears have led to inflating of costs while applying for government contracts which essentially leads to high government spending and less value for money. **We propose that the government enforces fiscal discipline by setting aside adequate resources in the domestic arrears budget to clear the current stock of domestic arrears over the medium term.**

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<sup>48</sup> ITU. (2019). Economic contribution of broadband, digitization and ICT regulation; [https://www.itu.int/dms\\_pub/itu-d/opb/pref/D-PREF-EF.BDT\\_AFR-2019-PDF-E.pdf](https://www.itu.int/dms_pub/itu-d/opb/pref/D-PREF-EF.BDT_AFR-2019-PDF-E.pdf)

<sup>49</sup> PSFU. (2023). PSFU Bulletin June-July Issue; <https://www.psfuganda.org/newsletters/347-psfu-newsletter-june-july-2023/file.html>

<sup>50</sup> Ibid

<sup>51</sup> Daily Monitor. (2023). Coffee suppliers give govt ultimatum to clear arrears; <https://www.monitor.co.ug/uganda/news/national/coffee-suppliers-give-govt-ultimatum-to-clear-arrears-4216128>

<sup>52</sup> Parliament of Uganda. (2023). Prioritize funds for contractors; <https://www.parliament.go.ug/news/6412/%E2%80%98prioritise-funds-contractors%E2%80%99>

(ii) **Address standards to promote Uganda's exports and health:** As of 2022, **54%** of the products on the Ugandan market were substandard<sup>53</sup>. For example, according to the Anti-Counterfeit Network, over **40%** of the agricultural seeds and **60%** of herbicides and pesticides on the market are fake<sup>54</sup>. It is projected that Uganda loses **US\$ 6 trillion**<sup>55</sup> in sub-standard and counterfeit products annually, while the local manufacturing sector loses **US\$ 4 billion**<sup>56</sup> annually to trade in counterfeit goods. Counterfeit inputs and products have therefore negatively impacted Uganda's agricultural productivity, exports, and people's health. With regards to electronics, UNBS had not developed adequate standards and testing capacity for all Electronic and Electric Equipment (EEE) entering the country yet imports contribute almost **99%** of EEE Put on the Uganda Market<sup>57</sup>. One of the causes of the prevalence of substandard products is to low capacity of UNBS to monitor and enforce standards due to (a) staffing gaps- UNBS has staff presence at only **27** out of the **170** border entry points<sup>58</sup> which risks sub-standard goods entering the Ugandan market through border points where the Bureau staffs are not present. The bureau also has **37** surveillance officers managing enforcement in the entire country which is insufficient given the need to enforce and manage good practices to avoid aflatoxins. Furthermore, the lack of sufficient quality infrastructure such as laboratory services has provided an additional bottleneck towards streamlining cross-border trade and thus further hindering the competitiveness of Ugandan products at both regional and international trade levels. Currently, the UNBS laboratory recognition scheme has 15 recognized laboratories which comprise 11 commercial and public laboratories and 4 laboratories within the manufacturing sites<sup>59</sup>.

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<sup>53</sup> EPRC. (2022). The infrastructure required to ensure an efficient national standards system in Uganda; <https://eprcug.org/publication/the-infrastructure-required-to-ensure-an-efficient-national-standards-system-in-uganda/>

<sup>54</sup> MAAIF's Digital Crop Inspection Tool to Fight Counterfeit Agro-Inputs; [https://www.newvision.co.ug/category/news/maaiifs-digital-crop-inspection-tool-to-fight-NV\\_157845](https://www.newvision.co.ug/category/news/maaiifs-digital-crop-inspection-tool-to-fight-NV_157845)

<sup>55</sup> Parliament of Uganda. (2022). MPs concerned about counterfeits; <https://www.parliament.go.ug/news/5712/mps-concerned-about-counterfeits#>

<sup>56</sup> Ibid

<sup>57</sup> OAG. (2022). Annual Report of The Auditor General to Parliament for The Financial Year Ended 30<sup>th</sup> June 2022; <https://www.oag.go.ug/viewmegareport/20>

<sup>58</sup> OAG. (2022). Annual Report for FY Ended 30<sup>th</sup> June 2022; <https://www.oag.go.ug/viewmegareport/20>

<sup>59</sup> EPRC. (2022). The infrastructure required to ensure an efficient national standards system in Uganda; <https://eprcug.org/publication/the-infrastructure-required-to-ensure-an-efficient-national-standards-system-in-uganda/>

**PSFU proposes that:**

- (i) The government should increase the staffing and laboratory capacity of UNBS to enhance its mandate of developing, enforcing, and monitoring standards for increased good-quality exports.
- (ii) The government optimally funds UNBS and treats its services as an infrastructural enabler rather than as a source of revenue which is now undermining the affordability of UNBS certification fees.
- (iii) The government speeds up accrediting private laboratories in Uganda to complement UNBS's mandate of product testing for certification.
- (iv) The government expedites the enactment of the anti-counterfeit bill to combat the importation and sale of counterfeit products on the Ugandan domestic market. This bill was withdrawn by the government in 2021 on the grounds that there are other laws that can address the gap.

**9. Establish a special-purpose vehicle to promote private sector participation in public procurement.**

We commend the government for ensuring that the Public Procurement and Disposal of Assets Act guidelines on preference and reservation schemes allocate mandatory **30%** local content to stimulate local participation. However, while public procurement accounts for up to **60%** (US\$**. 30 trillion**) of the Government of Uganda's expenditures<sup>60</sup>, there is still low participation by domestic firms. For example, in 2021, **83%** Value of Works Contracts (i.e., **100%** Development Projects and **99%** Rehabilitation Projects) went to foreign contractors, and the balance **17%** value of works contracts was shared between national and resident contractors<sup>61</sup>. Furthermore, local content participation in energy projects, the oil sector and airport development projects are still below 40%<sup>62</sup> due to the lack of capacity of local firms to

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<sup>60</sup> D4D Hub. (2023). Uganda bets on e-procurement to advance efficiency and transparency in the public sector, <https://d4dhub.eu/news/uganda-bets-on-e-procurement-to-advance-efficiency-and-transparency-in-the-public-sector>

<sup>61</sup> UNABCEC. (2022). The Contractor Uganda-Issue No. 19, DECEMBER 2022; <https://www.unabcec.co.ug/site/assets/files/1550/thecontractormagazineissue19.pdf>

<sup>62</sup> Parliament of Uganda. (2022). Report of the Sectoral Committee on Tourism, Trade and Industry on the Fuel Crisis in the Country; <https://parliamentwatch.ug/wp-content/uploads/2022/02/TTI2-22-Report-on-the-Fuel-Crisis-in-the-Country.pdf>



supply. From a gender equality perspective, only 1% of PPDA contracts go to women-led businesses<sup>63</sup>. Under Construction and Real Estate, the sector faces longer procurement lead times whereby the average lead time taken to complete a procurement under open domestic bidding is **121 days** against the indicative period of **100 days**; while the lead time taken to complete a procurement under open international bidding is **416 days** against the indicative period of **110 days**<sup>64</sup>.

Local content is also still a required aspect to catalyse the local manufacturing sector, with the continued importation of products where Uganda has a niche. For example, despite being the 7<sup>th</sup> largest exporter of coffee in the world, Uganda is also the 127<sup>th</sup> largest importer of Coffee in the world, importing over \$2.07 Million<sup>65</sup> in 2021. In 2021, Uganda exported \$59.3M in Raw Sugar (making it the 48<sup>th</sup> largest exporter of Raw Sugar in the world), but also imported \$20.3M in Raw Sugar (becoming the 122<sup>nd</sup> largest importer of Raw Sugar in the world)<sup>66</sup>. This means that Uganda is spending more money on products which are in abundance in the country.

A low level of participation in public procurement by domestic actors affects the innovation spirit but also leads to financial hemorrhage as foreign entities continue having the highest percentage of public procumbent. To increase local participation, PSFU with support from the MasterCard Foundation is providing the much-needed capacity building through a special purpose vehicle to build the capacity of the local private sector to effectively participate in public procurement. Through this initiative, PSFU projects to increase local participation from 30% to 60% within 2 years resulting in 13,000 new jobs created, and about USD 3 billion in tax revenue earned as VAT and corporation tax.

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<sup>63</sup> AFIC. (2023). Towards Gender Balance: Understanding the Barriers and Solutions to Include Women-Led Businesses in East Africa (Uganda); <https://africafoicentre.org/towards-gender-balance-understanding-the-barriers-and-solutions-to-include-women-led-businesses-in-east-africa/>

<sup>64</sup>BMAU. (2022). Ministerial Policy Statement FY 2022/23-VOTE 153 Public Procurement & Disposal of Assets (PPDA).

<sup>65</sup>OEC. (2021). Coffee in Uganda-Exports and Imports; <https://oec.world/en/profile/bilateral-product/coffee/reporter/uga>

<sup>66</sup>OEC. (2021). Raw Sugar in Uganda-Exports and Imports; <https://oec.world/en/profile/bilateral-product/raw-sugar/reporter/uga>

## Recommendations

To increase the participation of the domestic private sector in government procurement, the FY 2024/25 Budget should:

- (i) Enact and implement the Local Content Bill 2020 to enforce the Buy Uganda Build Uganda (BUBU) policy and reservation schemes.
- (ii) Mainstream local content in the ICT sector's budget to allow for the participation of young “*entrepreneurs*” who are critical in driving the country's digital transformation agenda.
- (iii) Ensure that if Ugandan products meet the required standards, Public Procurement should be skewed towards these goods and services.
  
- (iv) Establish a Construction Industry Development Fund in the Uganda Development Bank that would offer fair and affordable financing at an interest rate of say 7 – 12% P.a.

## 10. Conclusion

We wish to thank PACOB for granting us an audience to appraise him on the state of the Private Sector and the challenges impeding its competitiveness. We also wish to commend H.E. the President, through the OPM and other Ministries, for his efforts in promoting Private Sector growth through exploring markets and government programs. Furthermore, the Private Sector appreciates the Government of Uganda for responding to 78% of the Private Sector proposals for FY 2022/23 and strongly recommends that clear monitoring and evaluation mechanisms are instituted to ensure value for money through strict implementation of the agreed policy actions.