Private Sector Statement on the FY 2019/20 Budget Strategy

Presented to the Budget Conference

By

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Your Excellency the President,
Hon. Ministers and Members of Parliament,
Development Partners,
Business Champions and the entire private sector,
Ladies and Gentlemen,

1. On behalf of the Private Sector, let me take this opportunity to thank Government for involving us yet again in the Budget consultative process. The challenge we had last year was that some of the key budget decisions were taken without involving the private sector especially those that were tax related and during the post budget analysis we expressed this disappointment. This year, we are starting the process together and we hope we will keep this way to the end. The private sector, under PSFU has organized itself along 11 sectors, mirrored with the Budget Sector Working Groups under government, and we hope a lot can be jointly achieved through budget planning, execution and monitoring. It is always important to involve the business community in budget strategy as they are key in domestic resource mobilization.

2. The FY 2018/19 was characterized by the weak consumption orchestrated by the very weak effective demand, constrained production levels, market access challenges, high exchange rate volatility and the non-responsiveness of the lending rates that impacted the ability of businesses to meet their obligations as they fell due. The dismal growth in the agriculture sector was largely explained by natural phenomenon. In addition, effects of the political activities both in the country and the region, though improving constrained private sector decision to invest more. To a large extent, tax predictability and therefore investment planning for some sectors was unstable, thereby constraining the ability to lay capital and create wealth.

   This notwithstanding, we appreciate government for the stability in the macro economy. Interest rates have been stable although very high, inflation has been contained, albeit on account of the tight monetary stance and the good weather. The foreign exchange rates have also stabilized.

However, **while the economy is stable and growing at 3.8%, poverty also grows at 25.8% and 9.8% in rural and urban areas respectively.** This puzzle must be addressed, because then it shows that the country is still domiciled in jobless growth. The celebrated growth is not translating into income and hence purchasing power for the bigger part of our population. Savings are extremely low for the larger part of the population and only up to 20% of the taxpayers are accounting for more than 80% of the tax revenue. URA has put the tax bracket to less than 1.5 million tax payers, implying that more than 8 million Ugandans who should be paying taxes are outside the tax brackets. Inequality is also still high at a gini coefficient of 0.34. Implying that only 10% of the population control over 35% of the economy. This is not good for business.

These are not good indicators for a country striving to attain middle income status. More so, it is the biggest disincentive to private sector growth because it constrains **EFFECTIVE** demand.

To this end, the Private Sector has proposed to government **business models that can assure markets and stimulate growth.** This way, with targeted public investments, Uganda shall be able to create opportunities for increased production, job creation, income growth and therefore effective demand. This coupled with government's strategy on **local procurement and BUBU** shall help stimulate production and create wealth across the larger part of the population, especially the in the rural economy.

3. **Strengthening Linkages and building synergies** both in the public and private sectors is a major pre-requite for this to happen. We must avoid operating in silos and duplicating roles and resources as this only wastes taxpayers' money.

The private sector lauds government for the various poverty reduction interventions made so far. However, these efforts should be consolidated, prioritized and carefully targeted to address the poverty challenge, with the areas of high prevalence receiving more attention. This will help inclusive growth. To achieve this, the Budget strategy for 2019/20 must ensure utmost efficiency in public spending and service delivery while holding the implementers of government projects and programs fully accountable.

While we appreciated the expenditure and review plan in last year's BFP, there was concern that the budget was **strong on expenditure** and **deep on taxation but quite weak** on **wealth creation** which would otherwise be the best way to increase Uganda's domestic revenue mobilization. The current tax regime does not seem to mirror what Government highlights in the medium term, with the theme - **"Industrialization for Job Creation and Shared Prosperity".** The tax regime does not support production and value addition (e.g excise duty). A tax regime that deters innovation, constrains business startups and formalization, and widens the income inequality goes against the good intentions of our budget strategy as it will not be consistent with job growth and shared value.

Last year, the private sector made proposals on how this growth can be achieved using the current available resources and make attempts to achieve the middle income in the set target of 2020. We have given the options through the Ministry of Finance on how to avert jobless growth. These proposals are now being embraced under **Public Investment Management for Agro-Industry (PIMA).**

4. Each year Government rightly focuses significant amounts of resources towards key sectors that suppress the cost of doing business (e.g infrastructure, energy, security, land administration, skills, ICT). This has helped to increase production, productivity, innovation and market access among others. However, while this is appreciated, the private sector believes that such interventions should have an effective private sector participation especially through **public procurement and investment through PPPs**. Nearly 60% of our development budget is in public procurement and if this approach is pursued we will be able as a country to address the challenge of the public debt especially where funds are borrowed for infrastructure. Government through this budget, should support capacity building for the Private sector (especially SMEs) to effectively take part in public procurement in order to save FOREX, create JOBS and grow our incomes.

5. The private sector has also noted the **slow pace in passing business related bills and regulations.** e.g the Local content bill, Coffee bill, NSSF Amendment bill, Pensions bill, National Health Insurance bill, Land Lord Tenants bill,

Animal Feeds bill, Amendments to the Fisheries Act, Data protection bill etc. These are stalled either in Ministries or Parliament. Government therefore needs to expedite the development and enactment of these laws.

6. Finally, the **insecurity** witnessed this year is working against us as a country especially affecting the competitiveness in the **tourism sector**. The number of tourist arrivals is beginning to go down. Unlike other sub sectors that respond immediately after the upheavals, the tourism industry lags. Government has targeted 4 million visitors per year by 2020 with a more than double earnings from USD 1.35 billion to USD 2.7 billion over the next 2 years. To realize this, the sector requires more aggressive promotion, product development, infrastructure and image building, to help restore confidence. This should be addressed through next year's budget.

Finally, we urge Government to build efficiency in public spending and allocate resources to sectors and areas that will propagate inclusive growth, job creation, export development, broadening of the tax base to reduce the tax burden as well as increase service delivery.

For God and My Country!