

UGANDA NATIONAL CHAMBER OF COMMERCE AND INDUSTRY

**POSITION PAPER: ON THE IMPLICATION OF THE NATIONAL BUDGET
(MINISTRY OF TRADE, TOURISM AND INDUSTRY) ON THE PRIVATE
SECTOR IN UGANDA.**

**SUBMITTED TO THE COMMITTEE OF TRADE, TOURISM AND INDUSTRY IN
PARLIAMENT.**

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1. Background

The Uganda National Chamber of Commerce and Industry (UNCCI) was established and registered in 1978 under the Companies Act as a company limited by guarantee with-out share capital. The Chamber is an independent, private sector member driven organization.

As the main voice of the Uganda business community, UNCCI maintains close links with Government and contributes to the development process of the country. And just as importantly, UNCCI has nurtured affiliations at international level with the worldwide chamber movement, inter-governmental and private organizations aimed at widening its scope of activities and promoting Uganda on the world scene. The Chamber boasts of membership to powerful organizations like the International Chamber of Commerce (ICC), organization of Islamic Chamber of Commerce (OICC), East African Business Council (EABC), East African Chambers of Commerce industry and Agriculture (EACCIA), African Chambers of Commerce Industry and Agriculture.

Mission Statement

To serve and promote the interests of the business community in playing a leading role in the economic development of Uganda.

Vision

To be the leading private sector body for the business community in East Africa, providing members with an influential global network for business, culture and education.

2 .Introduction

The main feature of this year's Budget focuses on progress towards Industrialization and transformation of the national economy in the quest for prosperity for all. The theme for the National Budget *2008/09 FISCAL YEAR is: "Achieving Prosperity for All through Infrastructure Development, Enhancing Employment and Economic Growth"* recognizes the major factors that have affected the performance of the economy in FY 2007/08 and, based on the emerging trends, regional as well as globalization and above all, the need for attaining national aspirations. The budget puts emphasis on the role of the private sector, as the "engine of growth"

With an estimated growth rate, at factor cost, of 8.9% in FY 2007/08 and an average of 7.9% over the past five years, the economy has shown resilience against increases in the international price of oil, escalating food prices and disruptions that were experienced from the post election conflict in Kenya.

The 2008/09 National Budget largely promises to tackle most of the key issues affecting the private sector as well as doing business in Uganda. However, not everything is entirely positive to the business community. As one of the it's key objectives, UNCCI is lobbying policy makers to pass and enact favorable laws and policies which will foster good business climate (including reducing the costs of doing business) and protect the interest of the private sector. It is pursuit of this broad objective that UNCCI is submitting its position paper on the National Budget for the Financial Year 2008/09 and in particular the Ministry of Trade, Tourism and Industry and how this affects business and the business community. We therefore take this opportunity to highlight some of the key aspects in the budget pronouncements that affects how business is done in Uganda.

3. Emerging Opportunities and Challenges likely to result from the implementation of the 2008/09 National Budget.

Given the current trends in the world economy, the recent National budget strategy is to build on such a positive trend by investing more in infrastructure (energy and roads), human resources (education and health), agriculture productivity and value addition. Such a strategy will not only provide a basis for sustaining high economic growth rate but also increase levels of employment and incomes, which are prerequisites for the attainment of prosperity for all.

The focus on improving the welfare of citizens will require public as well as private investments that contribute to the improvement of infrastructure which supports a range of household activities. Special attention will be given to areas such as roads, water, energy, education, health, and production and processing of agricultural products.

In addition, there have been new discoveries of minerals, emergence of peace in the region, renewed interest in the public-private partnerships across the globe and an increase in the role of the knowledge economy.

However, while some of these are welcome developments, they also represent challenges at the national/Macro level i.e. in macroeconomic management as well as at the Micro level, particularly on the way of doing business. An increase in foreign currency inflows, for example, might lead to a strong appreciation of the shilling which could reduce external competitiveness; eventually affecting the demand for Uganda exports to both regional and international markets thus discouraging the highly cherished increase in production of respective products.

4. Mineral Development and Oil Discovery

. Current developments in the mineral sub sector are expected to generate increased private sector investments in the country. To support this trend and enhance its contribution to future growth of the country, government has acquired new airborne geophysical data and developed a dissemination policy and scheme to ensure that data is available for public use. If the oil and mineral discoveries of Uganda are converted into real benefits, the country could be poised for an even greater surge in investment and exports. The discovery of oil reserves in Uganda and the anticipated modest production of about 4,000 barrels of crude oil per day, presents a grand opportunity for the business community to tap in the distribution and others related businesses. Further still, it is expected that the processing of oil into diesel, kerosene and heavy fuel oil (HFO) in 2009/10 will result in substantial savings of foreign exchange that can be used major capital developments that are required to stimulate private investments.

However, the so-called *Natural Resource Curse*, which is a well known suggests that some countries that are endowed with natural resources do not to perform well. The challenge for government therefore, is to ensure that Uganda does follow this pass.

In attempt to avoid the so called “Natural resource curse”, a new Oil and Gas Policy is being drafted. Once again the challenge is for Cabinet and Parliamentary to ensure that an appropriate Policy is put in place. There is need to establish strong effective institutions to handle policy, regulation and the business of the oil industry in a manner that separates roles and ensures transparency, efficiency, accountability and avoidance of conflict of interest. This can only be achieved through enactment of relevant legislation on revenue management and utilization of proceeds from oil.

Recommendation:

- 1. Government expediently enact the Geographical Indications Bill,2008**
- 2. Government could network with Uganda National Chamber of Commerce and Industry to train its members on the policy on geophysical.**
- 3. Government expediently passes the new Oil and gas policy.**
- 4. Government to partner with Private sector to jointly invest in the manufacturing of Oil into diesel, Kerosene and heavy fuel oil.**

5. The Emerging Role of Public-Private Partnerships

In its pursuit to achieve sustainable high rates of economic growth and prosperity for all, government promises to continue to prioritize interventions that contribute to creating a climate that attracts and promotes private investments, especially in

selected strategic areas such as infrastructure, energy, value addition (agro-processing) and services through PPPs. To address this challenge, government needs to strengthen partnerships with the private sector. The continued recognition of the fact that both public and private sector possess different attributes and capacities in relation to access and use of resources, innovativeness and knowledge systems is a core element in partnerships between the public and private sectors (PPPs). The challenge for the business community is to identify viable projects to partner with government for effective implementation.

A properly sought out PPP arrangement can increase the level of funds available for investment and improve the quality of services provided thereby increasing the impact on beneficiaries. On other side, the challenge for government is to put in place a well understood and widely disseminated national Policy on PPPs.

Recommendation:

- 1. Government and Private Sector come up with a strategic plan for investment and improved quality of services.**
- 2. Governments provide funding for private sector.**
- 3. Government develop and pass a national policy on Public and private partnership.**

6. Strengthening the Financial Sector

Despite the fact that the financial sector is one of the fastest growing sectors in the economy, there is need for Government to continue encouraging its growth in all sectors of the economy. There is need to strengthen the financial systems especially in the areas of deepening and broadening the sector. To further enhance its role in the economy, the banking sector needs to extend beyond the traditional commercial banking function to provision of other financial services such as mortgage financing, leasing, mutual funds and venture capital among other products. There is need for government to establish a framework that will entirely compel banks to move in that direction without leaving this entire to liberalization of the financial sector.

In addition the role of capital markets, as an integral part of the financial system, needs to be strengthened as they represent an efficient mechanism for savings mobilization and allocation, risk and liquidity management, and corporate governance. In addition, capital markets facilitate government debt management and conduct of monetary policy.

Strengthening and Expanding Rural Financial Services: The key undertaking by Government in this regard during FY 2007/08 was development of an appropriate policy and institutional framework for delivery of financial services. There is need

for government to speed up the process of developing the policy and regulations of the management and operations of SACCOs.

Recommendation:

1. **Government sensitizes the business community on the institutional framework delivery of financial services policy.**
2. **Government sensitize the business community on the benefits of the capital markets , but also protect the business community in ventures which may negatively affect them such as the recent selling of shares by Safaricom, where the majority of Ugandans lost their monies.**

All the above poses challenges for government efforts to ensure accessibility but also affordability of business finance by the private sector.

7. Emerging new markets, both local and region/international

The prospects for domestic & International trade are greater with the return of peace and security in the North of the country as well as the whole Great Lakes Region. There is an opportunity that a large part of the land, human resources and social economic infrastructure that had been rendered redundant by the twenty-year insurgency in Northern Uganda will now be put to use. Under the emergency phase, the ongoing resettlement and reintegration of the internally displaced persons (IDPs) in their places of origin will in time increase the population that is engaged in productive economic activities as well as creation of an enormous market that has boosted demand for products. All these are market opportunities that the business community can take advantage of.

In addition, with the consolidation of peace and security in the Great Lakes Region in recent years, Uganda stands to benefit immensely from region/international trade (***the Dubai of the great lakes region***) especially with the Democratic Republic of Congo, Southern Sudan, Rwanda and Burundi. There is already evidence of significant exports of Uganda's agricultural based commodities to these countries. Therefore, the challenge for future development planning is for the Government to invest more in strengthening the production base that must be expanded to meet the domestic, regional and international market demands.

The challenge is for government to expedite establishment requisite infrastructure to access both domestic and international markets and streamlining rules and procedures governing the business environment and overall reduction domestic barriers to trade through streamlining taxation and licensing policies and practices. There is need to strengthen the circulation and coordinating of information flow with District Commercial Offices. More so, efficiency in the functioning of the Marketing and Agro-Processing Strategy (MAPS) Secretariat at

MTTI will go along in providing the relevant information to the business community.

Recommendation:

- 1. Government builds the feed roads and district roads to enable farmers and business people transport producer from the production centers.**
- 2. Government partner with private sector to build Ware houses to store the producer in villages.**
- 3. Government partner with private sector to build factories in all regions in Uganda for processing food and having value addition. This will enable the local people to be employed and also venturing more revenue for the government.**
- 4. Government secures markets for the business people at the international level and not leaving it to the market forces, which leaves middle men/women to buy producer at a low price and selling it at a big profits at the expense of the farmer. Farmers are discouraged.**

8. The Knowledge Economy

In today's world the generation and exploitation of knowledge is an important part of the economy. Though the use of knowledge in any economy is not new, the increased degree of its incorporation along with information into the business community have created structural and qualitative changes in the operations of both national and global economies, and are major drivers of transformation and competitiveness. The Knowledge Economy is mainly emerging from two defining forces: the rise in knowledge intensity of economic activities and the increasing globalization of economic affairs. This presents an opportunity for private sector to invest in provision of related services to meet the challenges created by the increasing pace of technological change and globalization through IT related communications revolution.

In Uganda, the last 20 years have seen an unprecedented growth in the application of computing and communications technologies in all areas of business and Community life. To support this trend, the Government has provided a number of incentives including tax exemptions on computers and a range of related IT equipment. In addition, significant progress has been made in the building of a National ICT backbone. The deepening and widening of these services is still far below the current demands and it's an opportunity that the business community can exploit.

Recommendations:

Government encourage trade through ICT, however, the government should come up with polices and laws to protect trades from unscrupulous thieves who pretend to buy or sell goods on internet.

9. Infrastructure Development

Improving the Stock of Infrastructure. The physical infrastructure needs of the Ugandan economy are growing tremendously and threaten to outstrip the current availability. Investment in infrastructure was considered as one of the key priorities in the 2008/09 budget in order to enhance competitiveness of Uganda. Although substantial resources have been allocated to dams & other infrastructure for the generation of energy so as to meet the shortfalls in energy supply, the challenges that need to be addressed are affordability and reliability. This will eliminate the need for manufacturers and other commercial enterprises to provide their own sources of energy which increases operational costs and reduces competitiveness of the country as a whole. The re-introduction of the exercise duty on diesel for industrial generators might have negative impact on the production costs.

With road transport being the dominant mode of transport in Uganda, accounting for over 82 percent of the volume of freight and human movement, road infrastructure is a critical component of the economic development strategy. Because our road network is critical to production, competitiveness and trade, road maintenance was key strategic priority. Despite this, the road network has developed a huge backlog in maintenance with approximately 20 percent of the entire road network currently classified as in poor or bad condition. Consequently, the budget allocation for roads maintenance has been increased to eliminate the backlog on road maintenance at national and district levels (1.1 trillion UGX). There is need to address issues of quality and corruption as perceived in this sector. In addition, there is need to emphasize the importance of farm gate/production roads in order to facility farmers' access to markets.

Recommendation:

- 1. Government provide alternative for fuel for instance the garbage in cities and villages could be separated in usable materials which could generate electricity and also to subsidize the diesel for the industrial generators, this will enable manufacturers to produce 24 hours days otherwise industries are only operating for only 12 hours. This is very expensive for the Private sector.**
- 2. Government monitors the quality and compliance of the road construction.**
- 3. Government should also put emphases on the construction of feeder roads and district roads.**

10. Industrial Development:

Building an export-oriented industry based on agro-processing and resource-based Industrial development is essential because it raises the productivity of labor, creates employment, adds value to products, and enabling higher export revenues to be earned. In order to nurture innovation and commercialization aspects that are so crucial for industrial development, substantial resources were allocated to the Uganda Industrial Research Institute (UIRI) so as to enable it equip its laboratories for scientific research and set up appropriate infrastructure. Further UIRI has assisted in the improvement of on the existing food processing technologies and has expanded on the agro-processing and value addition projects to enhance quality of products for export. However, there is need to spread the export processing zones across the country to target specific advantages that are peculiar to the various regions.

Recommendation:

1. The Government in partnership with Private sector should expediently construct factories in all the regions of the country. This will enable Uganda to export its produce to Congo, Sudan, Rwanda and countries belonging to the Organization of Islamic Countries (OIC).

11. Enhancing Industrial Productivity and value addition. As part of its support to micro, small and medium scale enterprises, Government continued to train Jua Kali artisans and expose them to best practice in FY 2007/08. About 300 cluster members have had their skills developed and are now actively participating in cluster initiative activities including coordinating and networking in production and marketing activities. In this regard, Government is embarking on the construction of Jua Kali Parks and common facilities centers in Luzira and Makindye. Site plans and architectural designs have already been approved. There is need to ensure that issues of branding and standards in to promote Uganda's competitiveness in this sector.

Recommendation:

Government should partner with Uganda National Chamber of Commerce and Industry in empowering the micro, small and medium scale enterprise to expand in all the districts of Uganda. Since the common facilities centers are in Luzira and makindye. There is need to expand national wide.

12 .Building a competitive investment climate: Government has sustained attention towards improving competitiveness, which has improved over the last year. During FY 2007/08, in order to improve competitiveness and private sector development government efforts were directed to establishment of a Credit Reference Bureau, preparation of commercial laws including the mortgage bill, the tourism bill & ICT bill; Implementation of the National Trade Policy and the Industrial Policy for guiding and boosting of trade and industrial development; Implementation of the National Export Strategy (NES) and establishment of a 24-

hour auto-processing customs system at the main border crossings among others.

Recommendation:

13. Government should create awareness on the Credit Reference Bureau and expediently enact the mortgage bill, Partnership Bill and contracts Bill taking cognizant of the interests of the Private sector.

Compliance with International standards: Knowing the importance of meeting regional and international standards, Government continued to dialogue with other states under the auspices of such agencies as COMESA, EAC, and UNIDO on matters of ensuring conformity to standards and enhancement of regional trade.

Recommendation:

The Non -Tariff barriers which impede on the operation of business in Uganda should be removed and countries should comply with the agreements signed.

In conclusion, it can be argued that the government has this time round been able to prepare the most balanced national budget ever. However the challenge remains with its efficiency and effective implementation.

We thank for you for your kind attention

FOR GOD AND MY COUNTRY