PRIVATE SECTOR

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NATIONAL BUDGET CONFERENCE FOR FY 2016/17.

STATEMENT OF THE PRIVATE SECTOR ON BUDGET STRATEGY FOR FY 2016/17.

BY

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Introduction:

I am grateful to have been invited to make a statement at this Budget Conference.

Uganda continues to register fairly high rates of growth and single digit inflation in spite of the many challenges we have experienced through the year. This notwithstanding, we in the private sector commend Government for containing the worrying trend of the main two parameters i.e inflation and exchange rate. Though the situation still creates challenges for predictability and high cost of production there is hope that we will return to normalcy especially if we contain the food prices by addressing the production challenge.

The Private Sector believes that while monetary tools have been helpful to fight inflation from the demand side, this is artificial and only for the short term. The long term solution is contained is supporting the supply side capacities to increase production (goods and services) and create jobs. For Uganda, the Comparative advantage is in Agriculture and the **overall budget strategy for this year ought to focus on increasing production, value addition, exports and employment.**

Re-direct public spending towardssectors that create wealth for the economy:
Uganda has prioritized key sectors in the NDP II – largely Agriculture, Tourism and ICT. These sectors have the biggest potential to generate jobs and increase national output. By supporting more these sectors the economy will resolve many of our macro challenges like inflation and instabilities in the foreign exchange market. URA has been experiencing revenue shortfalls on account of a very narrow tax base. These sectors along with deliberate efforts to license and register businesses shall help grow our tax base and reduce our tax burden.

Next year's budget ought to take the hard decision to redirectpublic expenditure to areas thatsupport and grow investments as well as expand the tax base. This is where most of the answers to the current economic challenges will be.Next year's budget should focus on creating opportunities for increased local revenues *vis avis* foreign AID.

Government should decisively shift public spending from consumption to production especially in rural areas where most of our population lives. **Incentives must be established to encourage rural industrialization.**

I will make a short submission based on the 6 key areas (Agriculture, Manufacturing, Tourism Insurance and Health). Some cross cutting issues shall also be presented. The tax proposals will be separately submitted to the MFPED.

A. AGRICULTURE

1. Agricultural financing

Despite the Agricultural Credit Facility (ACF) there is still limited financing for agricultural production and value addition. The ACF was intended more for value adding equipment; hence farmers particularly in production could not access it. There is therefore a need for a **special window to be created to facilitate production.A tax waiver**should also be made for**farm equipments** like tractors spares. A deliberate differential in the tax rates for agriculture (and other key sectors) can do the trick. This support will be more successful if an organized production system is established and production commercialized. This will help rural development and more **inclusive growth**. Furthermore opening of land should be supported by removing the **VAT on tractor hire services for ploughing** and agricultural production services.

2. Support for Agricultural Research and production

While NARO, CORI and other research institutes like Kawanda and Namulonge have the potential to undertake agriculture research, they have very limited capacity to provide farmers with the high yielding varieties required in the various sectors (e.g cotton, coffee, cereals, cassava, banana etc). In the coffee sector for instance there is high demand for improved and high resistant coffee trees but whichcannot be availed to farmers for replanting.Deliberate budget allocation should be made to support agricultural research and enhance production. The law on Commodity trading which requires sourcing of products from only registered suppliers should be reviewed.

3. Managing Post harvest losses

Currently, there is **hardly any regulated storage facility**for most farmers in the rural productive areas in Uganda. In order to even out market supplies and pricing, crops such as maize, oil seeds and rice will require safe custody. Only then can the Uganda Commodity Exchange (UCE) and the Warehouse Receipt Systems (WRS) arrangement make sense. However these facilities are very expensive to setup and while the private sector may be encouraged to do so, government through the budget needs to allocate public resources to support investment in these facilities.

B. ENCOURAGE MANUFACTURING AND VALUE ADDITION

1. Implement the Buy Uganda Build Uganda (BUBU) policy through the Amended PPDA act which provides affirmative action for local manufacturers
2. Fight counterfeits and trade malpractices by introducing a punitive anti-counterfeit law

3. Support the **Skilling Uganda Programme** to encourage job creation and further investment
4. Strengthen UNBS to approve standards and certify products
5. Smoothen out the Regional trade Barriers especially with Kenya

C. SUPPORT TOURISM DEVELOPMENT

Uganda was rated among the top ten destinations in the World. The challenge for us is to support skills and product development, branding and marketing of our country.

If Uganda through the NDP II considers this sector to be among the key export earners and recognizes that it has a huge tourism potential like*Lonely Planets*puts it, then we need to allocate more budgetary resources to Tourism. We also need to undertake a systemic and structural review of the sector to create competency, improved marketing and product development. Under CEDP, some initiatives are already being undertaken but we need massive investment in the sector.

D. THE INSURANCE SECTOR

Uganda uptake of insurance services today measures at a mere 0.7%. The insurance industry has proposed the following considerations for next years' budget

1. Insure public assets (This could be done in a phased manner)
2. Because the Ugandan Economy has lost an estimated US$ 335Million between 2009-2013to foreign insurance firms,government should enforce the marine insurance (section (3) (2) of the insurance act).
3. Enforce the Workers Compensation Act 2000

E. SUPPORT TO THE HEALTH SECTOR

In is our prayer that next year's budget sets aside a fund similar to the Agricultural Credit Facility to address the financing challenges faced by the health sector especially on purchase of equipment (e. diagnostic and surgical). Such machines are very expensive and government ought to support the private health sector. Private Health investments are complimentary to what government provides and are generally considered a public good and it is in this regard that we call for budgetary support.

F. CROSS CUTTINGCHALLENGES

1. Infrastructural Development

Energy: Ugandan firms incur a high cost composition of Energy as part of the overall production costs which makes it hard to compete with products and services from countries; India, China, South Africa with fairly sufficient quantities and competitive prices of energy. These source countries have an energy cost mix of between **4-8 US Cents/Per**

Kilowatt/hr compared to **Uganda's 16 US Cents/Kilowatt/hr**; Government can therefore support the energy sector by ensuring the following;

- Stepping up effort to increase power supply and gradually helping to reduceenergy Prices to about 7 USD Cents / KHW by 2017
- Requiring that all housing plans above a certain value threshold shall have a solar installation before approval by KCCA. This will save grid power for industry and encourage job creation and production for exports
- Step up Rural Electrification, connections and encourage the productive use of power

Transport: Railways are key in reducing NTBs,Road blocks, weigh bridges, port congestion etc experienced while transiting to and from the sea, therefore if well planned and managed, rail transport can reduce the cost of transport by road from about 129 USD per tonne to less than 60 USD. Poor urban roads contribute to the ever worsening Traffic Jams which is costly for Business, the current improvements by KCCA notwithstanding. We want to encourage government to work more with the private sector on the SGR and emphasise the concept of LOCAL CONTENT in transport and energy projects.

Water ways / Ferry: There is need for improved water transport in the lakes especially Victoria to link the southern route of the railway to Dar es Salaam, Port bell and Jinja Piers with Kisumu, Bukoba and other major commercial centers in both Kenya and Tanzania. Secondly, a Badge should be planned to facilitate the **oil & gas industry** on Lake Albert to connect to the Packwach railway line. Additionally, building a ring road around **Lake Victoria** and supplying it with energy 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. The budget opught to address these challenges as well.

ICT: The laying of the fibre optic cable throughout the country should be prioritized and the support for development of ICT Park so as to connect Uganda to the world. This can be fast tracked through a PPP development arrangement.

2. Regulation of Foreign Exchange markets

Treasury Bills have been selling at very attractive rates. This has resulted into Increase of money from offshore investors from USD 3 million in January 2011 to USD 220 Million in December 2011 and to more than USD 450 Millionby June 2014 at a cost of about **145Million USD**. Uganda operates a fully liberalized capital account which gives leeway for speculators to externalize foreign exchange. While it was good toliberalize the capital account, there is need to monitor, take charge and control foreign exchange movements in view of such speculators. Kenya for instance allows a minimum of 1 year for any company repatriateprofits in form of foreign exchange. Unfortunately for Uganda, as a result of full liberalization, FOREX can immediately be externalized. BOU could rule that 6 months for Uganda would be appropriate to allow for economic planning and increased investments.

3. Pending Bills

   A number of business related legislation are still pending e.g the investment code bill and the anti-counterfeits bill. Government should fast track these to open ground for further investments in the country.

4. **Regional Integration & Economic Partnerships:**

   Uganda's continued support and involvement in the regional integration is strengthening her involvement in the world trade regime. However the process still faces Supply Side constraints and escalating NTBs. GoU therefore ought to look at cross border challenges for Uganda to become more competitive in the region by working with regional authorities to ease business, trade and investments.

5. **Fight corruption, Promote good governance and ensure efficiency in public service delivery**

G. CONCLUSION:

The Private Sector urges that next year's budgetshould focus attention on increasing production and productivity for export, job creation and the purchasing power of Ugandan consumers. The budget should also help to support local production and pay attention to regulation of standards and law enforcement among others. It is this package that will stimulate Uganda's economy and increase our competitiveness in local regional and international markets. Let us make that bold move and allocate more resources to productive sectors and also have policies that will support increased production while we cut back on unnecessary expenditures.