UNPACKING THE PRIVATE SECTOR'S CONTRIBUTION TO INCLUSIVE DEVELOPMENT

A report on the Uganda Private Sector Forum

September 20, 2019, Mestil hotel

KAS UGANDA & SOUTH SUDAN

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List of Abbreviations

KAS	–	Konrad-Adenauer-Stiftung
USSIA	–	Uganda Small Scale Industries Association
FUE	–	Federation for Uganda's Employers
SME	–	Small and Medium Enterprises
MSME	–	Micro and Small and Medium Enterprises
CDU	–	Christian Democratic Union
EAC	–	East African Community
GDP	–	Gross Domestic Product
EU	–	European Union
GIZ	–	German International Cooperation Agency
NPA	–	National Planning Authority
NDP	–	National Development Plan
COMESA	–	Common Market for Eastern and Southern Africa
CSO	–	Civil Society Organisation
UDC	–	Uganda Development Corporation
UDB	–	Uganda Development Corporation
EPRC	–	Economic Policy Research Centre
BTVET	–	Business, Technical and Vocational Education and Training

Introduction

Konrad-Adenauer-Stiftung Uganda and South Uganda in partnership with the Uganda Small Scale Industries Association and the Federation of Ugandan Employers on September 20, 2019, held the Uganda private sector forum at Méstil Hotel under the theme ***Unpacking the Private Sector's Contribution to Inclusive Development***. This forum was attended by representatives from the private sector, members of parliament, civil society, and the public sector.

The purpose of this forum was to bring together organisations in the private sector and institutions to gather insights on the challenges and needs of the private sector to provide a conducive setting to work on holistic policies that address concerns and prepare strategies of the private sector with one ample voice.

Welcome remarks

Country Director of KAS Uganda and South Sudan, Mathias Kamp welcomed everyone from the private sector, government and academia. He thanked the partners for this forum, USSIA and FUE for picking interest in this discussion and reiterated the theme of this year's forum.

Inclusive development goes beyond growth to production, creation of jobs, income generation, improvement of people's livelihoods and prospects, and generation of wealth for people and society as a whole. As a German political foundation, KAS's inspiration and ideas come from the desire to promote the *social market economy*, a system that avoids unbridled capitalism on one hand and a socialist planned economy on the other hand. This comes with a strong belief that a vibrant private sector is at the heart of a successful economy and a key factor of development. We believe in the forces of the market, that entrepreneurship should promote innovation and growth. There is a need for government to create conditions that allow the private sector to flourish but also take responsibility of the larger picture of development beyond profit.

KAS has engaged with the private sector in many policy areas and we want to continue working with organisations in Uganda in the private sector and their umbrella bodies. KAS is planning a series of engagements next year where we will continue looking at different policy areas, we want to make sure that the voice of the private sector is prominently heard. While it is not the most marginalised sector, we feel the general public needs to get a chance to listen from the private sector on whether there is a private sector position on policy areas. To also engage more systematically and transparently with government in defining the right policies to help the private sector grow and contribute to development.

The focus of this forum's discussion is to engage on the three interconnected spheres of the private sector: Firstly, private sector development - what does the private sector need to grow? How can the private sector be strengthened? Can productivity increase? How do we obtain more innovators? Secondly, how do we solve the unemployment question? Where is this economy heading, with the labour market too small to absorb young graduates looking for jobs? While we have had this discussion in the context of education and entrepreneurship training, ultimately we should all be aware that unless the private sector grows, there will not be anyone providing jobs for all these young people. Improving education policies is a great step, however, there is still a challenge when there are no jobs for young graduates to go into. The idea of turning every young Ugandan into an entrepreneur to employ only themselves will not help, either. We are looking at companies, small, medium and large companies (SMEs) which are the backbone of the economy. Thirdly, the private sector has grown in the context of development cooperation. There is more awareness in development discourse so that development partners need to cooperate more directly with the private sector and strengthen private sector partnerships. Beyond supporting government programs to bring about development, we are interested in directly supporting development through the private sector. How do we work with the private sector and link the private sector in Uganda in Germany and Europe at large?

Keynote address: German Perspectives on Development and Growth through Private Sector Involvement.

The keynote address was delivered by Honourable Andreas Lämmel, Member of the German Parliament as member of the Christian Democratic Union party and Deputy Head of the Parliamentary Committee on Economics and Energy. He is an expert on economic matters, development cooperation in Africa and a strong proponent and advocate of a stronger focus on the private sector component in development corporation. He expressed gratitude to KAS Uganda and South Sudan for organising the private sector forum and the members of parliament present for their participation in this discussion.

The continent of Africa is in booming progress, for years, Africa has been growing faster than the world economy. From 2004 – 2018, Sub-Saharan Africa registered the highest rates of economic growth with the growth rate of more than 5% per year compared to Germany whose growth rate is 1.1 – 1.2% per year. However, it must be acknowledged that over-dependence on heavyweights like Nigeria and South Africa tilt this dynamic but economic growth is accelerating again. According to forecasts from the International Monetary Fund, there will be an increase of 3% in GDP between 2018 and 2020. This growth is fuelled, in part, by a rise in domestic funds. East Africa is one of the most dynamic regions, not only in Africa but in the whole world. Its GDP is growing at an annual rate of 6-7% and this pace is very likely to be sustained in the coming years. One factor to sustain this momentum is the rise of a young and growing middle class.

The East African Community (EAC) founded by Kenya, Uganda and Tanzania in 2000 has achieved full economic and political integration compared to any other regional organisations in Africa. In 2007, Burundi and Rwanda became members and South Sudan joined in 2018. The EAC is a successful integration project and has been described by the World Bank as the most rapidly reforming region. As a landlocked country, Uganda can only benefit from the full integration in the EAC, which is why it is committed to the removal of customs barriers and to introducing a common market with a single currency. In spite of the stagnation in the last 2 years, Uganda remains second only to Tanzania in the EAC in attracting foreign direct investment. The main reason for this favourable development is a policy that favours the private sector.

Dynamic economic development is unthinkable without private enterprises. There is no better illustration of this aspect than the transformation of East Germany from a planned economy to a market economy. A dynamic private sector encourages the economic development of the country because the private sector creates employment and income. Its tax returns provide a sound basis for the provision of basic amenities. Private undertakings are the main drivers of innovation and technology, therefore, promoting private enterprise is one of the main instruments for reducing structural poverty, increasing employment and harnessing economic development.

In the many countries that Germany engages on development cooperation, the private sector can be described by limited competitiveness and a lack of diversification, much of it is comprised of micro-enterprises and small businesses. There is a looming productivity gap between small and large companies and, at the same time, few small businesses grow to become medium-sized or large enterprises. Among the reasons for lack of competitiveness is poor infrastructure and the education system but the biggest problem facing SMEs in Africa is loans. Banks hesitate to loan money to small businesses, preferring big government projects. Further concerns are unfair legal and political conditions and lack of public services. African development will not be achieved without economic development, increasing trade and stronger investment.

The logical conclusion is that the promotion of the private sector must be the aim of German and international development cooperation. Special focus must be placed on micro-businesses and small and medium enterprises because they account for the bulk of private undertakings in Africa. Ultimately, they are potential sources of employment and income in the private sector. Trade promotion and development cooperation must be far more closely interlinked if change is to be achieved and if prospects for the people of Sub-Saharan Africa are improve.

With English as their official language and an abundant labour force, the East African countries present a conducive investment. East Africans have an open and inviting attitude towards Germany in particular and the governments of East Africa are supportive of the private sector and business development. For example, a foreign business, can register directly in any East African country without the need of a local partner company.

However, in spite of all past success, there is still the need to improve basic political conditions for business activity. The long routes through the ports of Tanzania and Kenya increase the cost of business for Uganda in particular. For this reason, an upgrade of infrastructure is a prerequisite for successful economic development across the continent. The EAC must also decide whether to sign the economic partnership commitment with the European Union (EU). Without clarity on this part, it is hard for East African companies to take strategic decisions.

Honourable Lämmel further highlighted population growth as both, the greatest challenge and opportunity for Africa's economic development. Africa's population is the youngest and fastest-growing in the world. 41% of the population is below 15 years of age. At rate of 3.3%, Uganda's population growth exceeds that of any country in the world except Niger and Mali. The growth rate influences economic growth and public service. Accordingly, the fields of education and health cannot keep pace. Moreover, there are not nearly enough new jobs for all these young people. Every year, up to 20 million young people enter the African labour market and, although the economies of Africa have been experiencing good economic growth, only 100 million jobs are likely to be created by 2030. As a result, many youths and young adults are unemployed and will remain so. The countries of Africa must do more to train their young population, which is the only route for sustainable development. Investments are needed in high-quality basic education. Besides, there must be improved opportunities for training in manual trades and technical aspects. Ideally, this practical focus will present young Africans with the opportunity to make a living. The German system of combining education with training could serve as a model for this aspect.

The agricultural sector is regarded as a source of hope for the continent, especially for East Africa. This is not only because of its potential to produce more food for the population but also because it could go a long way in creating jobs for the growing population. About two-thirds of the labour force is employed in agriculture and, although percentage contribution of agriculture to GDP has declined in the recent years, it still accounts for 32–42% of the GDP. Nevertheless, many young people migrate to the urban areas for jobs yet where only a fraction will find a steady job. Accordingly, a large percentage of African youths who will reach the working age in the coming years will still have to be absorbed in the agricultural sector. There, the small farms are highly labour-intensive due to a low level of modernisation. There is potential for job creation further down the production chain, mainly in the processing and refinement of agricultural products. Few of the foods consumed in Africa are of African origins, with preserved foods such as frozen foods, fruit juices, chocolate and pizza imported from abroad, mainly from Eastern Europe and the United States. Throughout Africa, there are too few production plants that turn tomatoes into ketchup, milk, cheese, maize, wheat and into bread for supermarkets. In industrial countries like the United States, there are added links in the production chain, thirteen times higher. In East Africa, Ethiopia leads the field in food processing with four hundred fifty companies which are mainly small business enterprises with ten - fifty employees, producing food items, chiefly oil and flour. The majority of these micro enterprises produce small amounts for local consumers and are mostly staffed by female family members. Enabling women in particular to start businesses would greatly benefit many countries and stimulate economic development.

The developments in the economies of Africa highlight one thing: the need for a political shift. Africa has to be regarded as a continent of opportunity. Politicians must also contribute more to the development of the region, not only those of the German government but also those of the African countries themselves. The bill to develop Africa's value-added chains and manufacture essential products locally must be the starting point and German businesses and must be an ideal partner in these efforts.

German companies often train their staff internally and the system of vocational training creates an essential pool of local know-how. Hon. Lämmel reiterated that it is important to have partners in Africa and as a result, the Federation of German Industries, together with the German International Cooperation Agency (GIZ), the Federation of Companies and Organisations in the East African Council launched a *Business for Development Initiative* in 2017 with a few German-East African partnerships. German companies' interest in East African markets is growing, however, Africa is a destination for only about 2% of all German exports. This is explained by the challenging conditions they sometimes face and the structure of the German economy. Compared with the multinational giants, Germany has fewer means of identifying, spreading and managing risk.

SMEs face a formidable challenge when it comes to funding and German businesses need political support in Africa. In the context of the German G20 presidency, the strategic importance of Africa's economic development has become a focal point of political initiatives. In the G20 initiative, twelve African countries are developing international corporations and improvements to the macroeconomic, business and financing frameworks for private investment. Unfortunately, Uganda is not part of this initiative in which Germany is implementing many measures such as improved conditions for ensuring investments and exports. For this reason, he advised Uganda to take part in this initiative too.

Crucial choices have been made to realign German policy in Africa. Africa means a great deal to the CDU party as a neighbouring content. It is important to treat Africa as equal: Africans do not seek handouts, they seek partners who will support them in the development of their countries. The aim of this support must be the creation of structures for the development of national economies and our role is to assist in the process of that aim by updating and facilitating the development of policy guidelines in Africa. The German Federal Government has expressed its commitment to extend its cooperation with Africa in the spirit of building partnerships with the private sector, promoting economic development in Africa, particularly by promoting trade. Private sector investment and innovation is a key part of this policy and it is underpinned by a wide range of measures. One feature of these measures is to pick German companies and assist them in their engagement in Africa. The key to sustainable development in Africa lies with African countries themselves.

Hon. Lämmel concluded his keynote address by highlighting the vital role of governance and leadership in economic development and cooperation, saying that, without an effective government, a significant reduction in corruption and political efforts to create economic corporations will fall flat. An efficient administration and accountability of governments provides a high degree of dependability as investment locations and is a basic requirement. Public dialogue on market economic models and principles is also part of this requirement.

Strengthening the Private Sector to Drive Inclusive Growth and Job Creation.

Another presentation by Mr. Ronald Kaggwa, Manager Production, Trade and Tourism Planning at the National Planning Authority, was given on the private sector in Uganda. Observing all protocol, he thanked KAS Uganda and South Sudan for convening this forum.

Mr. Kaggwa stressed the need to understand the private sector in the national context - how is it positioned in the development agenda? What is the contribution of this sector to Uganda's development? What are the root causes of a chronically uncompetitive private sector? What are the opportunities that the private sector can tap?

Having focused on the private sector for over 30 years, the NPA's policy focuses on a private sector-led export economy that is inclusive. The NPA has a green growth development strategy, one of whose principles is inclusiveness as emphasized in the Vision 2040. This means that the private sector is at the centre of national development objectives. A well-developed private sector is the engine of growth and sustainable wealth creation. The NPA has a national private sector development strategy which gives strategic direction to the private sector growth in the country.

Contribution of the private sector to development

The private sector contributes to approximately 80% of Uganda's GDP (National Private Sector Development Strategy (FY 2017/18-2021/22)). SMEs dominate the private sector and contribute to 2.5 million jobs. The 2016/17 manpower survey conducted by UBOS indicated that 77% of formal employment and activities are based on the Private Sector and only 23% are in the Public Sector. Formal employment in the private sector is projected to increase to 86.2%, while public sector employment is set to reduce to 13.8% by the end of 2019.

There is a deficit of technicians in the country - technical staff, plant and machine operators. According to the manpower survey, the private sector is made up of 17.1% managers, 41.1%

professionals, 4.8% technicians, 3.8% technical support workers, 17.1% service and sales workers, 1.8% craft and related trade workers, 3.0% plant and machine operators, and 11.4% elementary occupations. This demonstrates the potential of the private sector to create jobs. If harnessed, the private sector has the potential to solve the unemployment challenge in the country.

The revenue base is growing and domestic revenue increased to 14 trillion in 2017/18 (URA 2018), with most of this revenue coming from wholesale and retail trade (27%). The manufacturing sector contributed 21.6% and the financial and insurance sector contributed 8.94% to the annual revenue collections.

Constraints to the development of the Private sector

Much as the private sector plays an important role in the economic development of the country, it faces constraints which have led it to its failure to optimize its potential for development and job creation. These constraints are;

- Low survival rate, as most businesses do not survive beyond 20 years.
- Informality
- Low use of technology
- Use of family labour which leads to the hiring of unskilled people
- Competition from counterfeit products
- The high cost of doing business: Uganda has very high lending rates at around 20%.
- The high cost of energy, which must be reduced extensively
- Lack of basic ICT infrastructure in an era of e-commerce: Uganda has the second-highest cost of internet in the East African region.
- The high cost of transportation because Uganda is land-locked. Uganda has not exploited inland water systems such as the ports of Jinja and Portbell on L.Victoria. Also canal transportation has not been fully exploited.
- Difficulty in accessing electricity especially for new establishments
- Weak legal and regulatory frameworks. The absence of strong laws on patents and consumer protection make it an unfavourable environment for the private sector.
- Weak enforcement of standards: When the economy was liberalized in the early 1990s, the idea was to create efficiency but strong regulations were not put in place.

Opportunities for private sector growth

The private sector in Uganda is faced with several opportunities which, if seized, would result in economic development and job creation. These are

- Macroeconomic stability
- Economic growth

- Price stability
- Informality: Informal businesses have the opportunity to thrive if given value
- Green environment: Uganda has opportunities for green jobs like recycling
- Partnerships with government, other companies, CSOs and other countries.
- Agriculture: Uganda has a high comparative advantage in agriculture and is the regional food basket.
- Ratification of the African Continental Free Trade Agreement (AfCFTA)
- Regional Markets (EAC & COMESA) - Uganda sells more to COMESA than any other country.
- ICT (e-commerce) development
- Agro-industrialisation Program NDP III: opportunities from the development of the agricultural value chain.
- Exploring Commercial diplomacy: Embassies can act as links to promote trade.

Creating a dynamic and innovative private sector

Despite having an active private sector in Uganda, it is not innovative. The government's role is to create an enabling environment where people access cheap loans and boost innovation. The government can provide an enabling environment for the private sector by:

- Ensuring reliable and affordable access to energy
- Easing access to capital
- Reducing profiteering in strategic sectors like energy, railway transport and telecoms
- Developing the local content policy
- Maintaining Macro stability
- Strengthening the UDC
- Reviving and strengthening cooperatives networks
- Strengthening and diversifying PPP arrangements and promoting a quasi-market approach - Government should make a strategic decision to either invest directly or jointly with the private sector and local communities in key priority sectors through the Uganda Development Corporation (UDC)
- Providing long-term finance at affordable rates
- Reducing the amount of domestic arrears
- Putting in place mechanisms to ensure that the costs of doing business are kept low
- Branding and marketing Uganda to attract foreign investors
- Creating targeted tax incentives to key private sector players e.g. MSMEs

Challenges of a private sector-led driven economy

Uganda is in an excess of opportunities for a private sector-led economy, however, not all aspects of an economy should be driven by profit and some initiatives should exist for the public good. For example, in the banking sector, private banks are closing in rural areas as there is still a need to create a savings culture, particularly in the rural areas. In a private sector-driven economy, some areas will remain behind without the strong arm of government.

These areas need to be prioritized because much as they have low returns, they have high social returns.

In his conclusion, Mr. Kaggwa remarked that whereas the private sector is weak and uncompetitive, it is still the engine of the Ugandan economy. There is a need for strategic interventions to strengthen this sector to create economic growth and jobs, innovation, partnerships and technology. The government has a key role to play in strengthening the private sector and players in the private sector must also change their mind set, rise to the occasion and see opportunities where they are not.

Panel Discussion: Revisiting the Unemployment Question through the Private Sector Lens.

The panel following the speeches discussed the unemployment question through the private sector lens, highlighting both, the government and the private sector role in job creation and economic sustainability. The panel discussants were from the private and public sectors and explored, in detail, the definition of the private sector in Uganda, business and policy environment and the actions the private sector and the government need to take to facilitate the successful growth of the private sector.

The panellists were Veronica Namwanje from Uganda Small Scale Industries Association (USSIA), Ronald Mukasa from Enterprise Uganda, Dr. Madina Guloba from the Economic Policy Research Centre (EPRC) and Alex Ssemwanga from the Federation of Uganda Employers (FUE). This session was moderated by Yusuf Kiranda, the Secretary of Makerere University.

To start the discussion, Mr. Kiranda asked the panellists what their understanding of inclusive development was and what the indicators for inclusive development were. For Dr. Guloba, inclusivity meant development for everyone, irrespective of their tribe, nationality and age. Indicators of inclusive development revolve around decisions made in infrastructure, social protection and digitalization. She emphasized the role the political economy plays in ensuring a thriving private sector.

To contextualise inclusivity in the private sector, Mr. Kiranda referred to street vendors who sell the same goods found in shops on the shop verandas at cheaper prices. How does the debate of inclusive growth fit in this case for both the street vendor and the shop owner?

Dr. Guloba stressed the need to understand street vendors, saying that they are not a homogenous group. The issue of street vending vis-à-vis selling goods in a shop is centred on profits and livelihood. Unlike shops in town, one does not need much capital or qualifications to sell their merchandise on the street. The bigger question is how do we create spaces for street vendors to make money?

Two streams of argument around unemployment arose in the forum - one argument was that unemployment stemmed from young people lacking skills and attitudes to get, retain jobs through productivity while the other stated that the population was not proportionately linked to the labour demand. From an employer's perspective, Mr. Ssemwanga said that while there has been a noticeable statistical increase in economic growth, it has not translated into the creation of decent employment. The Uganda National Household Survey (2017/2018) reported that many Ugandan youths do not have the requisite skills required by employers. Surveys conducted by FUE have further confirmed this phenomenon. In his opinion, strengthening the BTVET sector would be ideal to tailor the skills required to carry out the available jobs. Uganda has a deficiency of machine operators, technicians and the education system still has challenges in addressing these practical skills.

Since 2001, the government has injected a lot of money in skilling youth initiatives. Mr. Kiranda noted that the president graduates thousands of young people every year in practical skills institutions and that many donors have invested in skills development. Nevertheless, the problem of unemployment persists, thus pointing to a misdiagnosed problem. Mr. Ssemwanga reiterated the need to carefully analyse what these education initiatives were focusing on. Whereas UPE and USE are focused on numeracy of learners, BTVET institutions are still faced with the problem of negative attitudes towards vocational education.

In reference to the negative attitude people hold towards vocational education, Mr. Kiranda noted that it is important to consider the aspirations of young adults in BTVET institutions in terms of the kind of life they envision for themselves after acquiring these manual skills.

According to Ms. Namwanje, Uganda produces more educated than employable graduates, a problem that persists even in technical institutions where the instructors, too, were trained in the colonial education and have not been retooled to meet the current industrial demands. As an example, Uganda has technicians but does not have specialized personnel; therefore, specialists from abroad are hired. She expressed the need for knowledge transfer and reported that USSIA had taken steps to promote this through partnerships with different vocational institutes, where the umbrella organisation facilitates trainings. However, she noted that such programmes require extension to a larger scale.

Beyond the challenging business environment, Mr. Kiranda asked the panel if the private sector was up to the task of playing its role in national development and creating jobs. Ms Namwanje reiterated that while SMEs are the biggest employer in Uganda, they still depend on the rudimentary instruments available to them. Given an opportunity to expand, there should be an enabling environment where businesses can thrive. Some things, like high taxes, incapacitate small industries. She suggested more flexible taxation policies, like tax holidays for small startups and shorter payback times for government tenders, which would give companies funds to reinvest in their businesses. To address the problem of long pay periods, Mr. Kiranda mentioned that the government has instituted the commitment control system where they cannot commit or tender a service for which they do not have the budget.

On taxation as a deterrent for SME growth, Mr. Mukasa said that Enterprise Uganda approaches entrepreneurship from the perspective of an entrepreneur. Taxation is a constant and while it may change, it might not change at the desired speed. In any context, the entrepreneur has the responsibility of performing well in the environment within which they are operating. Once an entrepreneur performs very well, they have the power to influence their environment. He observed that some of the best performing entrepreneurs are the most influential in national policy. The study by Enterprise Uganda pointed to tax administration and financing as the biggest challenges facing SMEs, where banks claim SMEs are very difficult to lend to because their operations are unclear. According to him, most SMEs lack capacity and need to be empowered. SMEs face poor hiring decisions (due to job scarcity where they are forced to hire relatives and friends) which leads to inefficiency in conducting business. Enterprise Uganda believes that pushing an SME owner to improve their business operations in the current circumstances will influence the environment to improve, as well.

Mr. Mukasa remarked further that while there is a consensus that the economy is being led by the private sector, the private sector does not know that it is leading the economy. He quoted Mr. Kitui, the Secretary General of the UN Conference of Trade and Development who had argued that "an African entrepreneur is a woman in the market." SMEs are mainly small, employing one or two people, without knowing that they are at the frontline of transforming the economy. This responsibility is blended as there is the government and private sector role. He emphasized the need for targeted support to entrepreneurs in developing systems, accessing partnerships and finance to deliver value.

While most entrepreneurs are having issues, others are thriving. Using local restaurant 2K and Zzimwe Construction Company as examples, Mr. Kiranda observed that companies are experiencing the business environment differently. Why do some businesses succeed in the same environment where others fail?

In response, Dr. Guloba expressed the need to understand who Uganda's private sector is, whether it is domestic or foreign. She stated that if one person has succeeded, there could be some key issues such as having governmental support which helps them overcome certain challenges. According to research by EPRC, government support of private sector should be domestic and not foreign to promote private sector development.

In agreement, Mr. Ssemwanga said that several employers running SMEs are struggling, which often prompts them to engage in unethical behaviour. The reality is that there are business practices which, if interrogated, would reveal unethical conduct. He spoke to policy contradictions in the business environment such as the recent bill by NSSF which compels an employer with one employee to pay their NSSF contributions. This would have various unintended consequences for an SME that is already struggling. Ms. Namwanje mentioned that entrepreneurs are profit-driven. To navigate bureaucracy and cut red-tape, entrepreneurs do what they have to do to succeed. We thus need to find a way of encouraging startups instead of stifling them with bureaucracy and red-tape. Opportunities could be the construction industrial parks and incubation hubs where entrepreneurs can go.

Mr. Mukasa said the government plays a big role in every economy. What is important from the perspective of SMEs is to create an environment where all businesses can flourish. It is crucial to create a generally conducive environment. In choosing winners, the government will inevitably make mistakes.

Plenary session

Many views on the cost of capital, skilling and labour demand, governance and the policy role in private sector development were raised by the participants in the forum.

Martin Okumu, the National Coordinator for Research and Policy for the Alliance for National Transformation and national chairman of East Africa's Entrepreneurs Association unpacked what private sector in Uganda is. There is a real private sector with registered companies which pay tax, the second category is the briefcase private sector with people who use their connections to connect deals in millions and the political private sector for whom politics is business. While people say Ugandans do not have skills, the Uganda Manufacturers Association reports that almost every industry is operating at 50% capacity, which means that the problem is not skills, there is something wrong in the manufacturing sector that makes them operate under capacity. He cited the cost of finance as a major debilitating factor for the private sector. "The private sector cannot borrow at 20% interest to earn about 30% and pay the interest rate and remain with money for survival and be successful. Any private sector cannot do business, pay this loan and stay afloat."

George Kagimu, the Mayor of Mukono Municipality, observed that for the last 30 years, the country has relied on the private sector but progress has not been good, suggesting that government could enter business to handle those areas that the private sector cannot handle. There is a need to find investors of businesses that have value and the government needs to invest in businesses that provide high value. Should we continue to rely on the private sector as it is?. The government would not have to get directly involved in business but instead provide the capital needed for large investments.

Concerning the opportunities for the private sector in Uganda, Namayanja Florence, the representative of Bukoto East constituency sought to understand why the government is not implementing the strategies as highlighted in the NDP II and several other policy documents.

One participant opined that whereas venture capital and private equity could present an alternative to expensive capital in Uganda, it is largely private capital which makes it impatient and because it lacks local context it wouldn't be easily comprehensible by local investors. This ties into the bigger challenge of the informality of many businesses in Uganda. There is no incentive to formalize business in Uganda because it is associated with tax which is often too high for small businesses. What kind of initiatives can be taken to derisk this venture capital? Further, he noted that the NDP, Vision 2040 and all other government policies are not clear on whether the government wants the country to be a manufacturing, agricultural or service economy or a hybrid which poses a question on efficient focus and resource utilization to move things to the next level.

According to the Chairman of the Informal Sector Organisation Uganda, Mr Bbosa, one of the problems facing the informal sector in Uganda is the failure to translate skills acquired in technical schools to the actual work in the industries. In a recent survey of the World Bank, he had discovered that only 1% of technical and vocational school graduates are working in factories, with the majority of workers having gained their skills through apprenticeship. He added that too much importation of cheap goods from countries like China is stifling the manufacturing industry.

Edson Rugumanyo from the National Youth Council explained that interest rates are high in Uganda, yet banks have the capacity because SMEs are risky to lend. In what way can the private sector improve the standard of doing business so that they can utilize money in the banks?

Marrying vocational education with formal education is very important to change the education system so that children are exposed to vocational skills at an early age, debunking the idea that vocational institutions are for people who do not perform well in formal education, said Harriet Kamya – Chairperson of USSIA in Mukono zone.

Elvis Mulimba, a member of the Construction Sector Skills Council assured the forum that the council was conducting reviews into the construction sector and there would be an overhaul in skilling and training of labour. He expressed the need to involve bankers in discussions such as these that highlight financial inclusion and further described the financing component for the private sector. "Bank of Uganda has provided a credit facility for farmers but no commercial bank is interested in touching it because the interest rate is 12%, whereas the bank wants to charge 20%."

Another participant sought to understand who government is in this context. Given the several policy issues that had been raised such as taxation, skilling, financing, she asked the panellists what policy issues they would prioritize as a precursor for the development of the private sector.

One participant fronted the possibility of using venture capital for agriculture and extending this funding across the value chain.

The forum attracted a good number of parliamentarians who shared their insights on what the parliament is doing to provide an enabling environment for the private sector growth in the country.

Honourable Norbert Mao opined that whatever is to be done for the private sector in Uganda has to be done within a frame. Previously, the policy was that government has no business being in business and, as a student at the university, he had resisted the structural adjustment programme which pushed towards privatization. Now, the government has realised that they cannot stay far from business. It is the role of parliament to insist on the proper balance between the private sector and government. The vision of the 10 point programme is to have an integrated, independent, self-sustaining economy, however, the economy is neither of these things. Nowadays, he added, most of the profit made in Uganda is externalised, so the parliament needs to look at how foreign investors are creating jobs. He further called for action in destigmatising vocational education and asked the other MPs to comment on the part political uncertainty plays in pushing away foreign investors.

West Nile has a lot of potential for business development but the area has not completely recovered from the insecurity that gripped Northern Uganda for 20 years, said Hon. Kassiano Wadri. The people of West Nile have demonstrated self-reliance in developing thriving businesses and the region is booming with vocational and artisan trade. He was optimistic that the plan to make Arua a city and to turn the airfield into an international airport would hasten the development of the private sector in the region.

Honourable Gerald Karuhanga, the MP of Ntungamo Municipality, pointed to the disconnect between demand and supply as a hindrance to the development of the public sector with most businesses in Uganda lacking the capacity to meet their demand. Majority of Ugandans are still thinking subsistent, with focus on running their day to day affairs. He made a call to action for everyone, especially politicians, to do what they could for every Ugandan to thrive. In the last 10 years, Uganda has borrowed about 30 trillion shillings and the public debt is 43 trillion but the money is not visible because most of it is largely contracted away. He juxtaposed this with Singapore and Malaysia who made sure the money they borrowed was strategically invested and the people were empowered to create more jobs for the government to raise more revenue. 80% of the revenue in Uganda is raised in greater Kampala consists of 5 million people only. As parliamentarians, he said, their role is to focus on better governance and to work closely across parties to focus on building the economy because the economy is non-partisan. He cited deliberate legislation as the only solution to having more local content. 'If we care about Ugandans running their businesses, not having international companies taking these tenders, we have to be deliberate with law."

In his submission, Medard Segona, the representative of Busiro East put the private sector to the task of confronting the governance question as the only way the business environment would change. He mentioned the irregularities in the structure of the land tenure system as a hindrance to the development of the private sector, for example, the proposal to register interests in land (Kibanja) which could be used as collateral for a business loan has never been implemented. However, while there are several governmental impediments to business development, there are many non-governmental bottlenecks as well such as poor attitudes to entrepreneurship and hopelessness caused by disillusionment.

Speaking on development governance, Honourable Komakech from the Gulu municipality praised the German system of economic development, adding that if we did not align governance, even mainstream policies would get distorted. In Uganda, institutions that should catalyse private sector development are underutilized, such as the Uganda Development Bank. We need 2 trillion to recapitalize UDB to reduce the dependence on microfinance institutions. He added that the Bank of Uganda should not have the responsibility to give agricultural credit, Uganda should have an agricultural bank. Northern Uganda has the most capacity in east and central Uganda to deliver food across the region but due to low investment, agriculture is low. Regardless of the land tenure system, he noted the need for a review of the customary land tenure and suggested that it should be certificated to give these communities the capacity to engage in agriculture.

In conclusion, panellist Alex Semwanga noted the need to prioritize the challenges the private sector is dealing with, stressing the importance of avenues such as this forum to review policy and have realistic research-based discussions. From an employer's perspective, dialogue and discussion between the public sector, government and the private sector is important to review policy and give realistic feedback and research. Away from the towns and cities, what are the research findings in the countryside on unemployment? There should be a collective approach from the private sector, government and employers to address these challenges.

Dr. Guloba opined that the country needs a bold *Buy Uganda Build Uganda* policy to build local content. There is too much supply of labour but the demand is not specific. Therefore, it is important to understand the part of the value chain from which skills are required. She further noted that the high-interest rates by commercial bank would not go down soon because the government is the biggest borrower from commercial banks. Until the government releases itself from commercial banks, the rates will stay high. She concluded by suggesting that the assured market would boost production, which in turn would grow industries and the private sector.

Veronica Namwanje concluded by expressing the need for synergies across the private sector in what she termed as "industrial osmosis" to make sure products and activities across different industries and sectors feed into each other to create more jobs along the chain.

In response to the questions and concerns regarding venture capital, Ronald Mukasa said that the quality of capital a company attracts is a reflection of the local market. There is a need to find the reasons as to why the local venture capital market is not working. We need to turn the conversation from formal vs informal sector into looking at informal businesses as businesses that will formalize. The two sectors should be blended to create value from the informal, artisan sector. Uganda has been reflected in many studies as a very entrepreneurial country, a reflection of how people have responded to the circumstances within the country, showing that despite challenges, people are doing business. There is an argument for briefcase entrepreneurs but there are successful ones, as well. As a country, we need to learn from them. To grow a business, there is no painless part and as a country, we must embrace this.

Closing remarks.

The closing remarks were made by Mr Raymond Agaba, on behalf of the Minister of State for trade who, at the last minute, had been called on other state duties. Observing all protocol, Mr. Agaba presented the speech as quoted below.

We feel honoured as government to participate in discussions such as these. The private sector is positioned as the engine of growth that is why it is effectively consulted in the formulation and reviews of policies, strategies and laws. The theme of the recently held budget conference for 2018/2019 was "Industrialisation for job creation and shared prosperity." This reaffirms the private sector's leading role in Uganda's journey to realise middle-income status by 2020. The NRM government has made positive strides in lowering production costs and improving the business environment. During this year's budget speech, H.E., the president, mentioned the four lows, what needs to be brought down. Uganda's economic strategy aims at addressing - low cost of power, transport, money and labour as a means to achieve industrial growth and competitiveness. The current cost of power ranges between \$0.11 per kW/h for the medium industries to \$0.5 per kW/h for the vertically integrated farms. The current electricity generation is estimated at 930 megawatts, an additional 793 megawatts will be added to the national grid in the next 2 years with the completion of Karuma and Isimba dams. The cost of transporting a 20 feet container from Mombasa to Kampala has been reduced from USD 4500, registering a business in Uganda now takes 4 hours because records are now digitally stored. This coupled with other strides in the ICT sector, peace and security, water for production indicates positive trends for private sector development. As a ministry, we have set up a directorate for MSMEs with the objective of developing policies and laws that will be tailored to help MSMEs improve their productive capacities and become competitive. This directorate addresses issues of business and product development, quality assurance and marketing among others. Ladies and gentlemen, in every journey, there are always challenges and I am aware that the private sector is faced with some challenges in conducting business and they include: the high cost of financing, high energy cost, poor transport infrastructure, delays in procurement, taxation, employment conditions, among others. Government is aware of these problems and is working to address them to have a vibrant and productive private sector with an objective to improve the livelihoods of the population. I am glad to note that one of the key objectives of this forum is to bring people from academia, civil society, the private sector and MPs together on a platform that ensures private sector issues are well presented and articulated to government. I trust that this forum has come up with solutions and recommendations that will inform the formulation of policies and strategies and laws that will promote trade and industrialisation. In conclusion, I wish to express gratitude to the organisers of this forum, KAS Uganda and South Sudan, USSIA and FUE for this good initiative and I pledge the support of my Ministry towards the achievement of these forum objectives. With these words, I declare the private sector forum 2019 officially closed.